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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS

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CHRISTMAS SALES MAY DETERMINE WHETHER A RECESSION WILL OCCUR IN 1990

Economic activity clearly has slowed in recent months. Our monthly estimates of real GNP shows no change for the past three months. The slowing started as a result of weak manufacturing sales, partially caused by reduced export activity. These reduced sales led to minor inventory excesses that were quickly eliminated in September, except for autos. The problem with autos is the large price increases that manufacturers use early in a model year to provide a cushion for the dealer incentives that arrive later. This method of pricing insures volatile sales patterns. Auto sales have now plunged in the fall to less than anticipated by domestic producers. As a result, further inventory adjustments are expected in manufacturing through the winter.

Activity also has been slowed by continued weakness in construction. Hurricane Hugo probably dictated the bottom of the construction cycle, as activity was suspended in much of the South during September. Reduced interest rates and the need to rebuild after the hurricane and earthquake probably will generate modest construction increases while the auto inventory correction is taking place.

Of course, further weakness in manufacturing could develop, leading to a collapse in production and increased layoffs. Although most indicators continue to show growth ahead, corporate profits have plummeted in the third quarter. Cost cutting efforts to rebuild profits could raise unemployment and turn off consumer activity. At this juncture of the manufacturing correction, such a slump in consumer activity would mean a further decline in sales relative to production, leading to substantial employment cutbacks early next year. Thus, the Christmas selling season will be of more than normal interest.

So far, the Christmas indicators are mixed. Sales have been soft most of this year, with retail trade only 4.5% above previous year levels during the summer. However, back-to-school sales were strong, clothing sales are doing well despite substantial fall price mark-ups, and some growth in real earnings from growing service hours provides consumers with significant purchasing power. Retailers also note that an early

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Thanksgiving increases the number of Christmas shopping days. Furthermore, the weekend after Thanksgiving showed strong sales gains, by nearly 10% for a sampling of department stores. Catalog sales, which used to be a good indicator of consumer intentions, also have been strong. However, catalog activity may now indicate disenchantment with shopping and may signal a change in consumer shopping shares rather than any reason to expect stronger sales. Offsetting these favorable trends are surveys indicating that most consumers wish to spend no more this Christmas than a year ago. They are only spending earlier. If these intentions are realized, sales could weaken as Christmas approaches.

Most Christmas merchandise already has been made. Because of concerns about payment as a result of financing problems at the Campeau stores, production has been less than normal for Christmas. This may partially explain some of the manufacturing weakness late in the summer and early fall. However, a strong Christmas would mean that spring orders could be robust. As a result, the normally slow winter manufacturing period could show a little spark. This anticipation of future sales depends on the amount of promotion needed to clear the Christmas merchandise. Thus far, promotions have been substantial, but consumers have responded. Thus, the evidence remains mixed whether Christmas will be strong enough to turn manufacturing up early next year. Without such strength, a mild recession still could develop early in the new year.

EASTERN EUROPE-At this point, dramatic changes in Eastern Europe still cannot be effectively gauged in the economic outlook. Several points are worthy of consideration if the Iron Curtain truly has been torn down.

First, European defense, which uses $170 billion of U.S. budget outlays, could be sharply reduced. If the Soviet tanks withdraw, as they already have been asked to do in Hungary, American divisions can be decommissioned. An American presence in Europe would remain, but the American commitment could be reduced without seriously jeopardizing the defense of Europe. Such reductions in defense could lead to 3-5% real reductions in defense spending during the next few years. Goods already authorized would prevent any serious defense reductions next year, but declines could begin by the following fiscal year. Such a declining defense trend coupled with the build-up of social security surpluses provides the opportunity to eliminate meaningful government deficits by the middle of the new decade.

Such a turn toward peace will create dislocations, as each percentage decline in real defense spending means 35,000 lost jobs. By the middle of the decade, the job transfers could exceed 500,000. The northeast and the west would be most severely impacted, but reduced troop training also would impact forts in the south. If the defense savings are used to reduce the deficit and lower capital costs, the transfer of resources might be accomplished without a recession. However, some economic weakness is inevitable as the economy alters activity.

Second, European capital would flow east to rebuild the Eastern European countries. The capital flows would reduce interest in American assets, causing dollar weakness. Offsetting this will be higher inflation in Western Europe as resources are strained and the growth of Eastern European markets. Thus, world trade could again soar by 8-10% per year, with the United States receiving a gradually rising share as the weakened dollar and higher European inflation increase American competitiveness.

Initially, rising credits would finance the expansion of trade. However, as the European economies advance, increased production from the east will add to world supplies. Agricultural products almost certainly will become excessive, leading to another slump in farmland values by mid-decade. Industrial materials, such as chemicals, metals, and some container products also could be in excess capacity once the returns from industrialization of Eastern Europe commence. Thus, modest deflationary pressures could occur following a period of inflationary pressures during the rebuilding period.

Quarterly Profile of GNP

	1989-2	1989-3	1989-4	1990-1	1990-2	1990-3	1989 Annual	1990 Annual
Real:	2.7	2.5	0.8	1.9	1.5	1.5	2.9	1.7
Price:	4.6	2.9	3.8	4.1	4.6	4.7	3.8	4.3
Nominal:	7.3	5.6	4.8	6.2	6.2	6.4	6.9	6.2

Monthly Statistical Highlights

	Oct 1989	Nov 1989	Dec 1989
Payroll Employment		+132,000	+146,000
Index of Hours Worked		+0.1%	+0.1%
Household Employment		+143,000	+168,000
Civilian Unemployment Rate		5.3%	5.4%
Personal Income	+0.4%	+0.7%	+0.6%
Savings Rate	5.2%	5.6%	5.6%
Personal Consumption	+0.1%	+0.3%	+0.6%
Retail Sales		-0.2%	+0.5%
Auto Sales		9.4*	9.6*
Housing Starts		-0.8%	+0.4%
Housing Permits		-6.1%	0.6%
Construction Expenditures	0.3%	+2.3%	+1.3%
Business Inventories	+0.2%	+0.4%	+0.5%
Orders for Durable Goods		0.0%	-0.8%
Orders - Nondefense Capital Goods		+3.6%	-5.8%
Industrial Production		+0.3%	+0.4%
CPI		+0.4%	+0.3%
PPI		+0.0%	+0.2%
Consumption Deflator	+0.5%	+0.4%	+0.3%
Leading Indicators	-0.2%	+0.2%	-0.1%
Currency Index		-0.1%	-1.1%
Equity Index		-2.1%	+1.6%
Real GNP (annual rate)	+0.0%	+0.6%	+2.9%
M1 (annual rate)		+1.8%	+4.0%
M2 (annual rate)		+8.1%	+4.8%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Payrolls grew strongly in October, although manufacturing payrolls continued to weaken slightly. The workweek fell sharply, but that was caused by the Boeing strike, which began during the survey week. Next month, 55,000 fewer jobs will be in transportation equipment because of the strike. Even with manufacturing job loss, 53% of manufacturers reported additional hiring as opposed to less than 50% during the previous two months. This suggests that manufacturing may be ending its slump once the strike is over.

The hourly earnings index rose 0.7%, suggesting that wage inflation may be intensifying slightly although composition shifts also could have caused the temporary surge in labor costs.

An unusually large percentage of workers are holding two or more jobs. This explains some of the discrepancy between the payroll and household estimates of employment. As a result of this increased moonlighting, payroll employment estimates probably will be adjusted downward when the next benchmark revision is made. The household surveys show no increase in employment since June. This should eventually lead to higher unemployment rates.

PERSONAL INCOME AND OUTLAYS-Rental income fell by $2 billion instead of increasing by nearly $8 billion because of the uninsured damage caused by Hurricane Hugo. Uninsured losses will be even larger in November as a result of the earthquake. On the other hand, farm subsidies should reappear after vanishing during the summer months. Also, private weekly earnings were up sharply, causing significant gains in wage earnings. Thus, personal income should show modest gains in October but then show greater increases in the next few months as the rental incomes return to normal.

Auto sales remain surprisingly weak following the summer incentives. This absence of any meaningful recovery suggests that the auto slump could be longer and deeper than currently projected. Other retail activity continued to show modest gains in October. However, the auto weakness should prevent any meaningful growth in consumption spending. While some growth in real consumption spending is expected in the fourth quarter, the annualized gains are less than 1%.

CONSTRUCTION-The timing of rebuilding following the natural disasters is difficult to determine. Public construction should be unusually strong during the next few months as repairs continue. A modest rebound in nonresidential construction also is likely. The rebound in housing starts during October should be reflected in additional residential construction expenditures. However, the gains in start were mostly in the South and reflect a rebound following Hugo. No surge in housing activity currently is expected. Building permits should remain weak for several more months as builders work through permits that already were issued but not used because of weather and financing problems.

BUSINESS ACTIVITY-Manufacturing inventories eased in September and should fall further in October because of a reduction of airplanes in process. However, auto inventories are again becoming excessive. Also, retail inventories are slightly large, suggesting that orders could remain sluggish during the fall as these inventories are brought back in line. Military orders fell less than expected in October, but further declines are likely. The weakness in October shipments partially reflects the Boeing strike. Further declines are likely in November before activity picks up again in December. Excluding aircraft, which should register strong orders through November, durable goods orders remain weak. Some improvement in information equipment orders is likely in the second half of next year, but orders currently are sluggish as new technology become available.

Most of the October dip in industrial production can be traced to the earthquake and the Boeing strike. Thus, some rebound should be expected as those events pass. On the other hand, no growth would have occurred in industrial activity if those two events were not significant. Thus, a return to sluggish industrial activity, especially as autos adjust for their excess inventories, is likely. As a result, capacity utilization should gradually ease during the next year. Obviously, not much commodity inflation should be generated. However, durable goods orders also may remain sluggish with this available but underutilized capacity.

PRICES-The October increase in the CPI is less worrisome than appears. Auto pricing is significant early in the model year as manufacturers pad dealer invoices to finance future incentive promotions. (Unfortunately, a side effect is to dramatically change prices between the close-out model and the new model, leading to a sales slump early in the new model year). Also, clothing prices rise when new fall fashions are presented. Seasonal factors still do not reflect these changing pricing patterns. Therefore, the CPI should increase more slowly during the next few months, although only 25% of new auto prices were included in the October report. Underlying inflation probably remains at 4.5%.

Sluggish industrial activity has again eliminated commodity inflation in November. Modest increases in commodity prices are expected next year as a result of a weaker dollar and labor cost pressures. Even so, inflationary projections have been reduced by nearly 0.5% because of sluggish industrial activity.

MISCELLANEOUS-Eastern European events suggest that the mark will be in strong demand while the dollar will lose some of its lustre. However, the trade balances are expected to improve slightly more than originally expected because of increased demand from Eastern Europe. Thus, the dollar's decline should be modest.

Falling oil prices during the summer are largely responsible for the substantial reduction in inventory profits. Oil prices are now rising but price declines for other industrial commodities should limit the rebound in inventory earnings.

FINANCIAL MARKETS

Although the monthly indicators show a decline in the household savings rate in August and September, only the August dip is really relevant. In September and October savings fell because of the loss of imputed rental income. The household sector's ability to provide funds to the credit markets was unaffected. Of course, rebuilding will raise housing investment, leading to a reduction in funds available, but these should be offset with a modest increase in personal savings. As a result, the household sector probably will have little influence upon interest rate movements in the next year.

Government deficits initially should increase as slow growth leads to poor revenue gains and as state and local governments engage in repair expenditures. Also, the corporate sector should be increasing its credit needs in the fall as inventories drift upward. Therefore, little further change in interest rates should develop until inventory reductions are underway in the winter. At that time, short-term interest rates could fall significantly while long-term interest rates may move modestly downward.

Reducing the rate of decline in rates will be reduced asset purchases by foreign investors as their attention shifts to Europe. Nevertheless, some decline in rates is likely early in the year.

After the inventory liquidations are completed by spring, interest rate pressures could gradually increase. Fortunately, reduced government deficits may reappear as defense spending is reduced and increased economic activity again adds to government revenues. Some upward drift in wage costs could be translated into higher inflation, leading to some rebound in long-term government yields during the second half of next year.

EQUITY MARKETS-Since July, the stock market has been running counter to the basic fundamental indicators. Adjusted profits have fallen sharply while interest rates have only modestly drifted downward. This should have led to declining equity values. However, only the drop in October showed any decline and that weakness has since been reversed. Of course, we are projecting improving operating profits and falling interest rates, which would justify higher stock prices. But stock prices should rally from a lower level. All this suggests that the market will fall modestly early next year. Adjusted for dividends, the returns should be down about 3% for the year. Returns are expected to be stronger for bonds.

However, the improving yield curve indicates that financial institutions, utilities and insurance companies should outperform the market. Also, a modest rebound in the energy sector should lead to gains for oil servicing companies. Some retailing in the southwest may rebound as well. Later in the year, technology stocks should return to life, but this probably will not happen until the second half of next year.

In short, stock market investments over the next twelve months should be more selective. Buying the market should prove to be unrewarding. However, selective issues should continue to offer investment opportunities. Though 1990 is expected to be a poor year for equity investment, the degree of decline currently anticipated is not great.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	108101	108101	128.7	128.7	117113	117113	5.3	5.3	9.61	9.61
May	108310	108310	127.6	127.6	117215	117215	5.2	5.2	9.60	9.60
June	108560	108607	128.0	128.1	117541	117541	5.3	5.3	9.62	9.62
July	108793	108767	128.4	129.2	117743	117459	5.2	5.2	9.68	9.69
August	108884	108887	128.7	128.5	117929	117597	5.2	5.2	9.72	9.69
September	109125	109088	129.0	128.8	118115	117456	5.1	5.3	9.77	9.74
October	109316	109321	129.1	129.4	118328	117545	5.1	5.3	9.81	9.81
November	109506	109453*	129.3	129.5*	118524	117688*	5.1	5.3*	9.85	9.83*
December	109698	109599	129.5	129.6	118720	117850	5.1	5.4	9.88	9.87
January 1990	109843	109712	129.7	129.7	118896	117967	5.2	5.4	9.94	9.91
February	110015	109866	129.6	129.6	119046	118076	5.2	5.5	9.98	9.95
March	110187	110016	129.7	129.8	119195	118274	5.1	5.4	10.02	9.99
April	110326	110153	130.0	129.8	119353	118452	5.1	5.4	10.06	10.03
May	110469	110314	130.2	130.0	119517	118542	5.1	5.5	10.11	10.07
June	110615	110456	130.5	130.1	119668	118743	5.2	5.4	10.16	10.10
July	110736	110621	130.4	130.3	119814	118945	5.2	5.4	10.20	10.14
August	110881	110774	130.5	130.4	119966	119109	5.2	5.4	10.24	10.17
September	111026	110918	130.7	130.6	120118	119275	5.2	5.4	10.29	10.21

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	4.387	4.387	2.601	2.601	183.3	184.3	3.718	3.719	3.535	3.534
May	4.395	4.396	2.604	2.604	203.5	199.4	3.747	3.747	3.543	3.548
June	4.407	4.418	2.617	2.622	224.1	218.6	3.769	3.777	3.545	3.559
July	4.435	4.444	2.640	2.645	225.0	211.2	3.795	3.800	3.570	3.589
August	4.458	4.456	2.651	2.650	226.3	188.4	3.813	3.810	3.587	3.622
September	4.481	4.469	2.662	2.665	224.1	188.4	3.831	3.819	3.607	3.631
October	4.503	4.489*	2.680	2.689*	234.6	200.8*	3.850	3.836*	3.615	3.635*
November	4.527	4.519	2.698	2.703	232.7	214.5	3.871	3.862	3.638	3.648
December	4.551	4.544	2.716	2.718	230.8	216.5	3.892	3.884	3.661	3.668
January 1990	4.575	4.568	2.730	2.732	232.4	224.4	3.911	3.912	3.679	3.688
February	4.602	4.593	2.745	2.748	234.0	228.8	3.932	3.938	3.698	3.709
March	4.629	4.617	2.760	2.764	233.2	232.7	3.953	3.957	3.720	3.724
April	4.649	4.641	2.776	2.777	223.4	213.8	3.970	3.961	3.747	3.747
May	4.672	4.667	2.794	2.793	216.0	228.0	3.983	3.995	3.767	3.767
June	4.695	4.687	2.812	2.805	224.7	228.8	3.996	4.012	3.771	3.783
July	4.710	4.712	2.825	2.821	230.3	231.1	4.020	4.037	3.790	3.806
August	4.729	4.732	2.838	2.834	231.7	225.1	4.045	4.053	3.813	3.828
September	4.749	4.756	2.851	2.851	233.1	229.5	4.070	4.073	3.837	3.844

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	3433.2	3432.1	477.3	477.4	1113.2	1112.9	1841.7	1841.8	2652.5	2652.4
May	3440.2	3445.0	467.7	466.5	1118.1	1126.7	1854.4	1851.9	2647.8	2651.5
June	3441.4	3455.4	466.0	469.1	1118.5	1125.0	1856.9	1861.3	2644.3	2657.1
July	3468.2	3484.6	468.5	479.5	1126.4	1129.5	1873.3	1875.6	2657.6	2673.2
August	3483.4	3517.6	470.1	498.9	1128.7	1126.9	1884.6	1891.7	2663.2	2700.5
September	3495.9	3526.3	468.9	492.8	1131.1	1130.5	1895.9	1903.0	2666.6	2699.8
October	3509.8	3530.0*	465.0	479.8*	1136.5	1134.9*	1908.3	1915.3*	2667.0	2691.0*
November	3531.3	3541.9	467.0	473.5	1142.3	1140.7	1922.0	1927.7	2671.2	2690.1
December	3552.8	3561.5	469.0	476.8	1148.1	1145.1	1935.7	1939.6	2675.3	2697.1
January 1990	3571.6	3581.3	469.7	478.7	1154.1	1149.9	1947.8	1952.7	2679.4	2703.3
February	3590.1	3602.6	471.2	481.6	1159.3	1155.9	1959.6	1965.1	2685.2	2710.7
March	3608.8	3617.3	472.9	479.2	1164.5	1160.8	1971.4	1977.3	2691.1	2711.7
April	3631.7	3639.8	477.2	484.1	1170.2	1166.3	1984.3	1989.4	2698.1	2719.1
May	3653.2	3659.2	478.6	486.9	1176.4	1171.0	1998.2	2001.3	2702.1	2723.0
June	3676.0	3675.0	481.3	485.6	1182.6	1176.0	2012.1	2013.4	2706.9	2723.1
July	3685.4	3697.3	473.9	490.4	1187.3	1181.3	2024.2	2025.6	2703.9	2730.5
August	3702.1	3718.9	473.7	495.7	1192.4	1186.0	2036.0	2037.2	2708.2	2736.7
September	3722.1	3734.0	477.0	493.8	1197.3	1190.8	2047.8	2049.4	2712.9	2735.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	141.07	140.94	22.41	22.41	10.8	10.8	87.30	87.12	31.36	31.41
May	142.10	142.54	22.97	22.97	10.2	10.1	88.20	88.40	30.93	31.17
June	142.17	142.50	22.79	22.85	10.0	9.9	88.66	88.48	30.72	31.17
July	142.49	143.56	22.84	22.80	10.0	10.2	88.83	88.90	30.82	31.85
August	142.85	144.86	22.70	23.15	10.6	11.5	89.01	88.98	31.14	32.72
September	142.91	145.90	22.71	23.00	10.6	10.6	89.20	90.00	31.00	32.90
October	142.88	144.47	22.80	23.17	9.4	9.8	89.62	90.07	30.46	31.23
November	143.57	144.22*	22.88	23.26*	9.7	9.4*	90.08	90.53*	30.61	30.43*
December	144.26	144.94	22.96	23.39	9.8	9.6	90.54	90.88	30.76	30.67
January 1990	144.81	145.53	22.90	23.38	9.7	9.7	91.01	91.26	30.90	30.89
February	145.39	146.34	22.98	23.44	9.8	9.9	91.42	91.74	30.99	31.16
March	145.99	146.46	23.04	23.35	9.9	9.8	91.83	92.13	31.12	30.98
April	146.94	147.45	23.00	23.46	10.0	10.0	92.28	92.56	31.66	31.43
May	147.59	148.14	23.07	23.58	10.0	10.0	92.77	92.94	31.75	31.62
June	148.39	148.39	23.14	23.63	10.2	9.9	93.26	93.33	31.99	31.43
July	147.91	149.35	23.02	23.71	9.7	10.1	93.63	93.75	31.26	31.89
August	148.29	150.33	23.08	23.84	9.6	10.3	94.03	94.13	31.18	32.36
September	149.05	150.50	23.15	23.82	9.7	10.2	94.42	94.51	31.48	32.17

Fore. = August forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	1.343	1.343	1.029	1.029	1.334	1.334	415.8	414.8	345.0	346.5
May	1.309	1.308	0.977	0.977	1.347	1.347	418.2	420.4	346.2	351.8
June	1.400	1.406	0.975	0.972	1.300	1.308	414.7	416.9	342.7	349.0
July	1.404	1.420	0.989	1.026	1.305	1.281	419.5	409.6	345.0	341.7
August	1.422	1.329	1.005	0.990	1.315	1.328	421.4	415.8	344.8	343.2
September	1.439	1.268	1.021	0.961	1.332	1.319	423.8	415.6	344.8	342.6
October	1.445	1.420	1.025	1.027	1.329	1.328	426.5	416.6*	346.2	342.3*
November	1.461	1.408*	1.021	1.032*	1.345	1.247*	429.8	426.0	348.6	348.6
December	1.456	1.414	1.029	1.036	1.347	1.255	433.3	431.7	350.9	351.8
January 1990	1.443	1.402	1.025	1.025	1.328	1.244	434.5	430.7	350.4	349.3
February	1.461	1.404	1.028	1.026	1.343	1.283	436.2	429.4	349.8	346.9
March	1.478	1.416	1.031	1.032	1.351	1.277	438.1	429.4	349.6	345.7
April	1.485	1.410	1.033	1.023	1.366	1.293	440.1	431.7	350.1	346.2
May	1.481	1.447	1.038	1.029	1.374	1.302	442.4	433.8	350.6	346.5
June	1.477	1.440	1.036	1.036	1.365	1.317	445.3	434.9	351.7	346.0
July	1.466	1.436	1.031	1.035	1.355	1.313	448.0	435.8	352.5	345.3
August	1.474	1.449	1.025	1.038	1.366	1.331	449.3	437.7	352.1	345.7
September	1.482	1.450	1.020	1.042	1.378	1.357	451.4	439.6	352.4	345.3

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	131.4	131.8	80.4	79.4	204.0	203.7
May	133.3	133.6	84.7	85.9	200.2	200.9
June	136.1	134.8	80.6	83.5	197.9	198.6
July	137.0	133.7	83.0	81.6	199.5	194.3
August	136.6	137.9	83.9	84.4	200.9	193.6
September	136.5	135.7	84.8	88.0	202.5	191.9
October	137.1	136.3*	83.8	87.2*	205.6	193.1*
November	137.7	138.9	83.3	89.4	208.8	197.7
December	138.4	139.4	82.9	90.3	212.0	202.0
January 1990	138.0	139.3	83.3	89.3	213.2	202.1
February	138.8	139.4	83.7	87.8	213.7	202.2
March	139.6	138.7	84.2	87.2	214.3	203.5
April	140.0	139.2	84.0	87.8	216.1	204.7
May	139.6	139.6	84.2	88.2	218.6	206.0
June	140.2	139.5	84.1	88.5	221.0	206.9
July	140.6	139.6	85.2	88.9	222.2	207.3
August	141.6	140.3	85.0	89.3	222.7	208.1
September	142.5	140.8	85.6	89.1	223.3	209.7

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	363.5	363.5	129.37	129.37	40.39	40.39	34.60	34.60
May	365.1	365.1	123.68	123.52	37.29	37.29	34.53	34.53
June	366.2	366.5	124.19	125.14	37.39	39.15	34.59	34.76
July	369.3	370.8	125.43	122.03	36.69	41.45	34.82	34.26
August	371.3	371.5	126.17	126.77	36.73	37.13	35.03	36.15
September	373.2	371.2	125.84	125.33	36.45	35.37	35.24	35.76
October	375.3	372.3*	124.76	124.59	35.64	36.50	35.06	34.63
November	377.4	373.5	124.43	124.65*	35.24	37.82*	34.93	34.17*
December	379.5	375.7	125.89	123.65	35.82	35.62	35.12	35.23
January 1990	381.2	377.6	126.14	125.43	35.98	36.43	35.66	35.67
February	383.2	380.8	127.35	125.21	36.27	36.36	35.87	36.03
March	385.1	382.4	127.53	125.86	36.41	36.73	35.94	36.34
April	386.0	384.0	128.56	125.95	36.98	36.92	36.45	36.58
May	386.9	385.5	128.85	125.46	37.23	36.77	36.51	36.71
June	387.8	386.8	129.18	125.45	37.64	36.72	36.69	36.74
July	388.6	388.1	130.14	126.33	37.83	37.63	36.81	36.91
August	389.6	389.6	130.42	126.44	37.95	36.93	36.95	37.05
September	390.5	390.9	129.64	126.31	37.82	36.83	36.90	37.13

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	771.3	771.3	8.63	8.63	141.6	141.7	84.1	84.2
May	778.1	778.1	8.70	8.70	141.4	141.6	83.8	84.0
June	780.8	780.8	9.20	9.23	141.1	142.0	83.5	84.0
July	783.3	787.6	8.86	8.19	141.4	141.9	83.5	83.7
August	785.1	790.4	8.94	8.94	141.8	142.4	83.6	83.8
September	787.0	791.8	9.02	9.24	142.2	142.4	83.7	83.6
October	792.6	793.2*	9.06	8.29	142.7	141.4	83.8	82.8
November	798.0	796.1	9.11	8.43*	143.2	141.8*	83.9	82.9*
December	803.4	799.7	9.16	8.73	143.6	142.3	84.0	83.1
January 1990	806.5	803.3	9.12	8.86	143.1	142.6	83.3	83.1
February	809.5	806.9	9.15	8.92	142.5	142.3	82.7	82.7
March	813.6	810.8	9.19	8.95	142.5	142.7	82.4	82.8
April	817.9	814.2	9.12	9.05	143.0	142.8	82.5	82.6
May	822.2	817.6	9.07	8.93	143.6	143.1	82.6	82.6
June	825.4	820.4	9.08	8.98	144.1	143.4	82.6	82.6
July	825.8	824.2	9.16	8.74	143.3	143.7	82.2	82.5
August	826.1	827.8	9.30	8.92	142.8	143.8	82.2	82.3
September	826.5	831.3	9.45	9.22	142.9	144.1	82.1	82.2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	123.3	123.3	113.1	113.1	111.8	111.7	125.5	125.5
May	124.0	124.0	114.1	114.1	112.3	112.4	126.1	125.9
June	124.2	124.2	113.9	114.0	112.2	112.3	126.4	126.2
July	124.7	124.5	113.7	113.5	112.0	112.2	126.7	126.6
August	125.0	124.5	113.5	113.1	112.1	111.7	127.0	126.7
September	125.3	124.7	114.0	114.1	111.6	112.1	127.5	127.0
October	125.8	125.3	114.3	114.5	112.6	112.9	128.0	127.5
November	126.2	125.8*	114.6	114.5*	112.9	113.0*	128.5	128.0
December	126.6	126.2	114.9	114.8	113.3	113.3	129.0	128.4
January 1990	127.0	126.6	115.2	115.1	114.0	113.8	129.4	128.8
February	127.5	127.0	115.5	115.4	114.6	114.3	129.8	129.3
March	128.0	127.5	115.8	115.9	115.2	115.0	130.2	129.7
April	128.5	128.0	116.3	116.4	115.7	115.5	130.7	130.2
May	129.0	128.5	116.8	116.8	116.1	116.0	131.1	130.7
June	129.5	129.1	117.2	117.2	116.5	116.2	131.6	131.3
July	130.1	129.5	117.7	117.4	117.0	116.5	132.0	131.7
August	130.8	130.0	118.2	117.7	117.4	116.1	132.5	132.2
September	131.5	130.6	118.7	118.1	116.5	116.2	133.0	132.8

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	129.4	129.4	111.0	110.9	122.8	122.8	140.0	140.0	120.5	119.7
May	129.9	129.9	110.9	110.7	123.6	123.6	140.4	140.5	120.8	119.5
June	130.1	130.0	111.1	110.9	123.4	123.5	140.8	140.7	121.0	119.5
July	130.5	130.4	111.3	111.3	123.5	123.3	141.3	141.4	121.6	119.9
August	130.8	130.3	111.5	111.6	123.6	122.5	141.8	141.9	122.2	121.2
September	131.1	130.6	111.8	111.4	123.8	122.9	142.4	142.3	122.9	121.3
October	131.6	131.2*	112.0	111.8*	124.2	123.4*	143.0	142.7*	123.2	121.7*
November	132.2	131.7	112.2	112.3	124.7	123.8	143.6	143.1	123.3	122.2
December	132.8	132.1	112.4	112.4	125.2	124.3	144.2	143.5	123.5	122.7
January 1990	133.3	132.5	112.4	112.6	125.6	124.7	144.8	144.0	124.0	123.3
February	133.7	132.9	112.6	112.6	126.0	125.1	145.4	144.6	124.7	123.8
March	134.1	133.4	112.7	112.8	126.5	125.6	146.0	145.1	125.3	124.2
April	134.6	133.9	113.0	113.1	127.1	126.0	146.6	145.7	125.7	124.7
May	135.2	134.4	113.3	113.4	127.6	126.5	147.2	146.3	126.2	125.2
June	135.8	135.0	113.5	113.6	128.0	127.0	147.8	147.0	126.6	125.7
July	136.3	135.4	113.7	113.8	128.4	127.4	148.4	147.6	127.1	126.2
August	136.7	135.9	114.0	114.0	128.7	127.9	149.0	148.2	127.6	126.6
September	137.2	136.5	114.3	114.3	129.1	128.4	149.6	148.9	128.1	127.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators	Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)	
	Fore.	C.E.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	-8.29	-8 29	145.8	5175	5186	4124	4132	-35.3	-34.9
May	-8.83	-10.08	144.2	5197	5200	4121	4130	-18.4	-18.9
June	-8.71	-8.01	144.0	5211	5218	4123	4135	-15.3	-13.6
July	-8.73	-8.24	144.0	5246	5256	4140	4152	-19.9	- 9.3
August	-8.45	-10.12	144.7	5273	5276	4152	4164	-20.1	- 1.7
September	-8.93	-7.90	145.0	5301	5288	4158	4164	-19.2	- 2.5
October	-8.66	-8.46*	144.9	5334	5309	4167	4164	-20.6	- 6.3
November	-8.73	-9.15	145.2	5367	5332	4177	4166	-21.4	-10.6
December	-8.81	-8.96	145.0	5399	5362	4185	4176	-23.3	-11.4
January 1990	-8.16	-8.52	145.5	5416	5389	4185	4184	-31.1	-14.3
February	-8.05	-8.43	145.3	5428	5414	4182	4187	-30.2	-16.5
March	-7.95	-8.26	145.6	5441	5438	4179	4193	-27.6	-19.2
April	-8.16	-8.17	145.3	5477	5469	4191	4200	-21.1	-19.5
May	-8.24	-8.65	145.8	5512	5493	4204	4203	-14.9	-20.8
June	-8.36	-7.89	145.5	5547	5524	4215	4207	-16.7	-22.6
July	-8.12	-8.21	145.8	5563	5548	4214	4213	-20.6	-21.3
August	-8.28	-8.23	146.6	5582	5577	4213	4219	-25.3	-21.7
September	-8.36	-8.16	146.4	5602	5611	4212	4225	-29.9	-22.5

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	97.24	97.24	165.9	170.3	8.89	9.03	170.34	169.38
May	100.81	100.81	176.2	167.6	8.85	8.83	175.56	175.30
June	103.09	103.09	177.3	180.8	8.46	8.27	180.90	180.76
July	98.43	99.12	178.4	166.4	8.31	8.08	188.43	185.15
August	97.12	100.44	171.7	168.5	8.22	8.12	187.72	192.83
September	95.76	101.87	164.0	154.7	8.13	8.15	185.43	193.02
October	94.43	98.92	168.5	156.1	8.18	8.00	185.67	192.49
November	94.82	98.81*	170.4	164.8	8.12	7.89*	183.19	188.43*
December	95.36	97.73	172.1	166.3	8.15	7.82	180.74	191.43
January 1990	96.25	97.59	164.8	171.1	7.81	7.76	172.25	190.67
February	95.46	96.21	160.1	166.9	7.73	7.73	165.76	188.62
March	94.86	96.03	158.2	167.5	7.68	7.76	159.50	185.95
April	93.26	95.43	165.5	166.8	7.72	7.81	158.77	183.54
May	92.94	95.51	171.2	167.5	7.66	7.84	159.38	183.61
June	92.96	94.43	171.5	168.3	7.70	7.83	163.46	184.72
July	92.15	95.31	167.3	168.4	7.68	7.98	162.53	181.36
August	91.82	95.42	161.6	170.1	7.63	8.06	165.12	181.37
September	91.56	95.46	155.8	171.3	7.69	8.22	167.83	179.09

Fore. = August forecast
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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	289.1	289.0	783.1	783.1	3081.1	3080.8	9.84	9.84	8.65	8.65
May	289.0	289.0	773.3	773.3	3071.8	3072.3	9.81	9.81	8.39	8.39
June	289.6	289.8	770.5	770.3	3087.3	3088.0	9.47	9.53	8.04	7.93
July	290.9	290.4	777.2	777.1	3119.1	3117.4	9.23	9.24	7.89	7.61
August	293.8	290.9	783.2	777.4	3136.1	3135.9	9.11	8.99	7.63	7.74
September	296.7	292.5	787.4	781.1	3153.2	3155.3	8.99	9.02	7.70	7.74
October	298.0	292.7	790.7	787.6	3171.6	3176.1	8.73	8.84	7.75	7.62
November	299.2	293.6*	794.4	788.8*	3190.3	3196.9*	8.77	8.63*	7.79	7.43*
December	299.9	[illegible]	797.8	791.4	3209.0	3209.4	8.70	8.32	7.80	7.21
January 1990	301.8	296.5	800.4	794.6	3223.6	3228.7	8.33	7.96	7.42	6.98
February	303.3	297.9	803.7	798.4	3237.2	3251.3	8.13	7.73	7.38	6.85
March	304.9	299.3	807.0	801.5	3250.9	3270.8	7.94	7.62	7.34	6.73
April	306.5	301.1	813.3	805.4	3272.1	3290.4	7.87	7.55	7.19	6.67
May	307.9	302.6	818.4	809.5	3294.0	3310.1	7.83	7.56	7.15	6.81
June	309.3	303.9	823.5	813.2	3315.8	3325.2	7.80	7.60	7.11	6.86
July	311.0	305.3	828.4	817.0	3331.6	3342.7	7.76	7.66	7.01	6.91
August	312.4	306.6	831.8	820.2	3352.5	3362.9	7.73	7.72	7.00	6.95
September	314.2	308.0	835.1	823.9	3373.3	3383.1	7.79	7.76	7.06	6.98

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1989	9.79	9.79	7.49	7.49	9.81	9.81	9.94	9.94	11.50	11.50
May	9.57	9.57	7.25	7.25	9.47	9.47	9.59	9.59	11.50	11.50
June	9.20	9.10	7.03	7.02	9.12	9.11	9.32	9.20	11.07	11.07
July	8.99	8.94	6.85	6.96	9.17	8.68	9.35	8.76	10.83	10.98
August	8.95	8.96	6.84	7.06	9.05	8.57	9.26	8.64	10.50	10.50
September	8.90	9.01	6.80	7.26	8.96	8.70	9.15	8.78	10.50	10.50
October	8.90	8.92	6.81	7.22	8.70	8.53	8.91	8.60	10.50	10.50
November	8.83	8.81*	6.73	7.11*	8.76	8.36*	8.97	8.50*	10.50	10.50*
December	8.76	8.73	6.67	7.03	8.68	8.08	8.92	8.21	10.50	10.02
January 1990	8.63	8.67	6.55	6.96	8.26	7.88	8.52	8.01	10.03	10.00
February	8.57	8.65	7.48	6.93	8.08	7.63	8.23	7.75	9.57	9.83
March	8.43	8.72	6.35	7.01	7.88	7.58	8.05	7.71	9.50	9.50
April	8.56	8.76	6.46	7.05	7.79	7.61	7.93	7.68	9.50	9.50
May	8.63	8.80	6.54	7.10	7.85	7.64	7.99	7.71	9.50	9.50
June	8.60	8.83	6.55	7.13	7.84	7.70	7.98	7.82	9.50	9.50
July	8.46	9.02	6.41	7.28	7.71	7.73	7.89	7.84	9.50	9.50
August	8.39	9.06	6.35	7.32	7.75	7.80	7.92	7.92	9.50	9.50
September	8.50	9.23	6.49	7.51	7.82	7.85	7.97	7.96	9.50	9.56

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* = This item and those beyond it are projections.

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
December 1989

Dr. Donald Ratajczak, Director
For Release: Tuesday, January 2, 1990

COLD WEATHER RAISES TEMPORARY INFLATION FEARS

NOTE: The tables in this publication have a new format. Most of our subscribers were calculating some of the quarterly changes that are now included. Also, twelve month changes are presented at the end of each projection. We also decided to return to our timing of releasing the publication the week following the release of personal income. As a result, all the data for the month of the projection will remain to be released. (As some of you may know, the month of the projections is not the month of release but the month for which new data is being estimated. Thus, the December projections mean that data for December, most of which will be released in January, is in this report.) Because of the shift in timing of release, there will be no November **PROJECTIONS**. Subscribers will have their renewal dates adjusted for this change. We hope these changes will aid your use of this report. We also intend to place these reports in your hands early in the week of the employment report.

Slow industrial activity had reduced commodity inflation to meaningless dimensions by early December. The Journal of Commerce index of sensitive prices peaked in excess of 107 early in October and fell to 102 by mid-December. Falling capacity utilization was setting the stage for no significant commodity inflation in 1990. Of course, wage pressures would insure continued inflationary pressures in the service sector, but the outlook for a significant slowing in inflationary pressures appeared to be developing.

Then, an early and cold winter developed. Because of unusually mild weather the past two winters, refiners were tardy in building up their heating fuel supplies. Natural gas production remained about 1 trillion BTUs above recent usage. Exploration had eased, leading to slight declines in ability to deliver gas, but a mild winter would provide no difficulty in meeting all home and industrial needs without interruption. Unfortunately, the temperature has been 20 degrees below normal during December. Meteorologists say this is caused by a shifting jet stream rather than an unusually cold polar cap. Therefore, more normal weather is likely during the remainder of winter. Nevertheless, damage has been inflicted upon the citrus crops in Florida and the Rio Grande. Vegetables also are affected. Furthermore, some interruption of natural gas service has caused price increases of 35-40 cents at the wellhead, while fuel oil prices have more than doubled.

COLLEGE OF BUSINESS ADMINISTRATION
GEORGIA STATE UNIVERSITY

Fortunately, most December prices already were recorded before these conditions developed. As a result, The December CPI should increase only 0.3% while the December PPI will rise a moderate 0.6%. However, unless current fruit, vegetable, and fuel prices reverse sharply, the January CPI will rise 0.5% while the February price increase could be in excess of 0.6%. A January PPI in double digits now seems likely. Therefore, the moderating inflationary pressures will be cancelled by the cold weather.

The loss of vegetable and citrus production will add to prices in those commodities for the next year, although ample supplies of oranges are available in Brazil. Higher heating needs will reduce capacity excesses in petroleum and may eliminate them for natural gas. Thus, somewhat higher prices are likely in those sectors because of this winter. Nevertheless, some price moderation is almost certain when the heating demand eases during the spring. Therefore, while the winter probably has added 0.8 percentage points to the CPI and 1.5 percentage points to the PPI during the next three months, the increase for the year should be less the 0.3 percentage points for the CPI and 0.8 percentage points for the PPI. Thus, moderate price changes should re-appear in the spring.

Cold weather is similar to a mild supply shock. Initially, consumers will suffer involuntary purchases as they pay whatever is necessary to remain warm. This is at the expense of savings and consumer durables. Thus, the cold weather probably will extend the auto slump. The reduced real purchasing power during the winter increases the likelihood that economic activity will turn negative at that time. When prices ease during the spring, economic activity should spurt, but not to recapture all the lost activity. Therefore, economic activity will grow less next year than originally expected.

Supply shocks normally create some upward pressures on interest rates. Normally, the increases are in sensitive short-term rates. However, the Federal Reserve appears to be worrying, correctly, about the slowness of economic activity, and has been engineering a reduction in short-term rates. Long-term investors have worried about the increased inflation and the falling short-term rates and have sold-off their long-term holdings. However, unless the supply shock leads to fundamental changes, such as the exhaustion of heating resources, very little upward pressure should develop in underlying inflation. Therefore, little interest rate change should be justified. Therefore, the current setback in the bond market is expected to be temporary. As interest rates resume their downward slide, a stock market rally could develop. Of course, profits will be squeezed except for resource companies. Therefore, higher equity values are not justified. Thus, some correction in equity values should develop following an early rally in the market.

Monthly Statistical Highlights

	Dec 1989	Jan 1990	Feb 1990
Payroll Employment	+144,000	+131,000	+114,000
Index of Hours Worked	+0.1%	+0.2%	+0.2%
Household Employment	+156,000	+144,000	+90,000
Civilian Unemployment Rate	5.4%	5.5%	5.6%
Personal Income	+0.5%	+0.4%	+0.6%
Savings Rate	6.0%	6.0%	6.0%
Personal Consumption	+0.6%	+0.5%	+0.6%
Retail Sales	+0.3%	+0.6%	+0.5%
Auto Sales	8.5*	9.4*	9.7*
Housing Starts	-4.2%	+3.9%	+1.6%
Housing Permits	-5.0	+0.9%	+1.2%
Construction Expenditures	+0.1%	-0.4%	-0.0%
Business Inventories	+0.4%	+0.4%	+0.4%
Orders for Durable Goods	-3.0%	-2.0%	+0.6%
Orders - Nondefense Capital Goods	-6.6%	-1.4%	+0.9%
Industrial Production	+0.2%	-0.4%	-0.1%
CPI	+0.3%	+0.6%	+0.6%
PPI	+0.6%	+0.9%	+0.7%
Consumption Deflator	+0.3%	+0.4%	+0.4%
Leading Indicators	+0.3%	+0.1%	+0.2%
Currency Index	-2.0%	-0.2%	+0.3%
Equity Index	+2.3%	+2.4%	+0.9%
Real GNP (annual rate)	+1.4%	-1.1%	+0.9%
M1 (annual rate)	+6.4%	+7.5%	+5.7%
M2 (annual rate)	+6.1%	+5.7%	+6.0%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Because the Boeing workers were never counted as out of the workforce, they will not add to the totals for December. They will improve the hours worked and the workweek estimates, however. The auto industry normally has extended plant closings for the holidays. Therefore, their inventory adjustment declines will not impact employment until January, when more than 100,000 should be on furlough. Some auto weakness should persist into February. As a result, the normally strong metals employment will be muted this time. The discrepancy between the growth of payroll employment and the reduction in household employment is difficult to explain. Also, our implied labor force appears to be growing more rapidly even as employment is slowing. This added worker effect probably is overstated. Therefore, the sharp rise in unemployment early in 1990 may not materialize. Although the hourly earnings index accelerated slightly early this year, changes are in line with recent experience as employment opportunities slow.

In the past month, a sharp discrepancy between payroll employment and hours worked suggests that employment conditions are weaker than suggested by the 210,000 gain in payrolls. Even with the return of Boeing, growth in hours worked is expected to remain slow through the winter.

PERSONAL INCOME AND OUTLAYS-Despite little growth in wages and salaries during November, wage recipients are doing well during the fourth quarter. Of course, part of that is caused by the special bonus at Ford in October. The surge in savings is caused by the end of disasters, which lowered imputed income. More predictable changes in savings are expected in the next few months. The savings rate currently is on the long-term trend of 6%. Some upward drift is expected from that level, but no surge in savings is expected without any serious fears of rising layoffs.

Auto sales are weaker than expected by timing shifts alone. Apparently, the 1990 cars are simply too expensive. Price incentives are expected to become widespread in January, which should stimulate car sales. However, the dollar increases in auto sales will be much smaller because of the size of incentives needed to generate sales. The auto industry is expected to follow this crazy pricing pattern again when the 1991s are introduced.

Cold weather will be partially reflected in nondurable sales, but fuel oil is counted in nondurable consumption but not retail sales. Therefore, some differences should be observed in the growth of those two components during these winter months. Weather also is a factor in utility purchases in the service sector. Assuming a return to normal temperatures for the remainder of the winter, the surge in services consumption should be followed by less than normal services purchases early in the year. Of course, the rebound in consumer spending during the first quarter depends upon strong auto purchases and some additional purchases of fuel oil. Obviously, if the price incentives do not materialize, auto sales will not rebound, and economic activity will be decidedly weaker early in the year.

CONSTRUCTION-Weather should impact housing activity during December. Because ample permits are available, permits also should fall significantly. Activity should improve as weather returns to more normal patterns. We have included multi-family starts to better indicate the performance in housing activity. Because interest rates are expected to rise later in the year, housing should again slow before the end of the year.

Despite the weather, construction is expected to grow modestly as a result of a surge in public expenditures to replace destroyed property. This construction bubble should vanish during the first quarter. For the year, construction activity is expected to show little real growth.

BUSINESS ACTIVITY-The surge in durable goods orders was a pleasant surprise. Nevertheless, orders have been trending downward and should continue to weaken modestly early next year. The rebound in defense shipments during 1990 is an aberration that should not persist as defense activity is slowed. Although aircraft continue to provide most of the gains in orders, the November performance was widespread, suggesting that the slump in manufacturing activity could be short-lived. The fourth quarter weakness in shipments is from the Boeing strike, which has been settled. Thus, some catch-up is expected early this year.

Although industrial activity is weak, strikes and natural disasters appear to account for the fourth quarter dip. Autos will be responsible for declines during the winter. Consumer purchasing should pick up by the spring, allowing an increase in industrial activity.

The quarterly growth in business inventories is not extensive. However, business sales have been even more sluggish. This is why some economists believe an inventory correction is developing. If sales rebound, however, no inventory excesses except in autos and related industries is expected.

PRICES-Cold weather will distort prices in the next few months. The impact upon inflation for the next year, however, is slight. Unfortunately, a developing moderation in commodity prices will be stalled by the cold weather. Also, if normal weather does not return in January, further adjustments in the inflationary outlook will be necessary. The November CPI was distorted by a lagged response to auto pricing. Some price moderation now is expected. Also, some air prices should fall early in the year. Although citrus prices are rising spectacularly, they constitute only 0.3% of the consumer price index. Thus, a doubling of citrus prices merely adds 0.3% to consumer prices, and such prices should not remain that high for the entire year.

The discrepancy between the CPI and the consumption deflator is the result of composition shifts. Falling auto consumption has increased the deflator, while a rebound in auto purchases should cause moderation in the deflator.

MISCELLANEOUS-Economic activity appears to have stalled during the fall and should remain quiet during the winter. However, a modest rebound is expected during the spring. The surge in fuel prices is reflected in the IVA estimates during the winter. This could lead to some stress borrowing, but the Federal Reserve currently is expected to continue moving interest rates downward.

Deterioration in the merchandise trade balances is the result of reduced competitiveness rather than any strength in the domestic economy. However, the dollar has begun declining in value. Further dollar weakness should restore some of that competitiveness. Also, domestic weakness probably will slow the flow of imports.

The leading indicators are holding, but they are not signalling any serious decline ahead. Modest increases are expected in those indicators as a result of more rapid money growth, a favorable equities market, and growing orders.

FINANCIAL MARKETS

Some stress borrowing during the winter could delay any further decline in interest rates until the spring. However, a sluggish economy still should lead to further interest rate declines in the next few months. Indeed, economic activity basically has stalled. Federal Reserve easing is anticipated, as they should recognize that much of the weather price changes are temporary and do not indicate accelerating underlying inflation. However, once the economy begins growing again, the Federal Reserve is expected to show concern about inflation, and could again tighten credit conditions.

The household sector probably will gradually reduce savings to pay for fuel oil and to maintain consumption patterns in light of reduced employment opportunities. Layoffs should be concentrated in only a few occupations, but some stress borrowing is possible during the winter. Housing financing should ease late in the year.

Stress borrowing is more likely by corporations early in 1990. Although inventories are under control, rising fuel costs could place borrowing burdens on the stockpiling of energy materials. Thus, some upward pressures in short-term interest rates would develop during the winter in the absence of Federal Reserve support.

Foreigners will increasingly find alternatives to American assets for their investments. Therefore, asset values should mark time in 1990. After falling early in the year, the prime rate could again rise as the year progresses.

EQUITY MARKETS-This bull market is approaching its last hurrah. Despite sharp declines in profits, falling interest rates have raised equity values. Further interest rate declines and some moderation in the drop of adjusted profits could lead to a rally as the new year begins. However, this is not a signal that the new year will be prosperous but rather the last upward move in this market. As soon as short-term interest rates begin rising, equities should be aggressively liquidated in anticipation of stock value erosion. A serious decline is not expected, but some weakness is likely.

Utilities continue to outperform this market and should provide a hedge against any serious erosion in value. Unfortunately, real estate problems have negated the favorable spreads developing for financial institutions. Although some regional institutions should do well, caution should be followed for financials.

A rebound in technology stocks is not expected until the second half of the year. Cyclical issues also should do poorly until the recession issue is resolved following the winter quarter. Obviously, natural gas issues have potential, but the market already has fairly priced those issues. Oil exploration and gas pipeline issues are preferred at this juncture.

A 5% appreciation is expected early this year, followed by slow downward drift through the remainder of the year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	PROJ.	% change
July	108767		129.2		117459		5.2	9.69	
August	108887	2.1	128.5	2.3	117597	0.7	5.2	9.69	4.5
September	109096		128.9		117456		5.3	9.77	
October	109189		129.2		117545		5.3	9.81	
November	109399	1.7	129.0	0.7	117786	0.9	5.4	9.80	4.2
December	109543*		129.1*		117942*		5.4	9.84*	
January 1990	109674		129.3		118086		5.5	9.88	
February	109788	1.5	129.5	1.0	118176	1.5	5.6	9.92	4.3
March	109926		129.5		118314		5.6	9.96	
April	110053		129.7		118422		5.7	9.99	
May	110222	1.6	129.8	1.2	118573	1.4	5.7	10.02	4.2
June	110407		130.0		118779		5.6	10.06	
July	110556		130.2		118940		5.6	10.10	
August	110716	1.8	130.3	1.5	119073	1.6	5.7	10.13	4.3
September	110884		130.5		119210		5.7	10.16	
October	111006		130.6		119333		5.8	10.20	
November	111153	1.6	130.7	1.5	119498	1.5	5.8	10.24	4.3
December	111328		130.9		119713		5.7	10.27	
Change Dec(90)/Dec(89)		1.6		1.4		1.5			4.4
Change Dec(89)/Dec(88)		2.3		1.9		1.5			4.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	4.444		2.645		209.8		3.799		3.589	
August	4.457	5.1	2.651	7.2	183.7	-10.8	3.809	6.5	3.625	7.5
September	4.467		2.668		191.8		3.813		3.622	
October	4.503		2.698		226.9		3.843		3.616	
November	4.541	7.4	2.700	7.9	235.8	99.5	3.878	7.1	3.642	3.2
December	4.564*		2.715*		232.9*		3.897*		3.664*	
January 1990	4.583		2.731		235.8		3.918		3.682	
February	4.610	6.5	2.749	6.4	238.4	12.3	3.942	7.3	3.704	7.0
March	4.632		2.762		241.9		3.964		3.722	
April	4.657		2.778		234.1		3.974		3.740	
May	4.678	6.1	2.790	6.7	240.9	-3.1	4.004	5.9	3.763	6.6
June	4.696		2.808		235.5		4.018		3.783	
July	4.724		2.825		238.3		4.042		3.804	
August	4.747	6.2	2.839	7.0	237.0	0.1	4.061	6.5	3.824	6.6
September	4.772		2.854		240.9		4.082		3.841	
October	4.794		2.870		245.6		4.104		3.858	
November	4.818	6.1	2.885	6.6	246.6	11.8	4.125	6.4	3.878	6.1
December	4.844		2.901		244.3		4.147		3.903	
Change Dec(90)/Dec(89)		6.1		6.9		4.9		6.4		6.5
Change Dec(89)/Dec(88)		8.5		7.9		44.5		8.1		6.4

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption PROJ.	Personal Consumption % change	Durables PROJ.	Durables % change	Nondurables PROJ.	Nondurables % change	Services PROJ.	Services % change	Consumption Real PROJ.	Consumption Real % change
July	3485.3		478.4		1130.0		1877.0		2673.3	
August	3521.2	7.6	498.9	13.4	1129.7	3.6	1892.6	8.7	2703.3	5.6
September	3517.8		480.9		1134.6		1902.3		2693.8	
October	3511.5		457.6		1133.0		1920.8		2671.4	
November	3537.7	3.2	459.5	-19.5	1145.5	4.1	1932.8	9.3	2682.4	-1.3
December	3559.4*		464.0*		1149.8*		1945.6*		2690.6*	
January 1990	3577.3		467.9		1153.5		1955.9		2696.2	
February	3598.4	7.1	470.8	8.6	1158.7	5.7	1968.9	7.6	2703.6	3.1
March	3616.6		471.2		1164.0		1981.4		2707.0	
April	3634.1		470.0		1168.8		1995.3		2710.2	
May	3656.9	6.6	474.6	3.1	1173.1	5.0	2009.2	8.5	2718.5	2.2
June	3676.3		476.1		1176.8		2023.4		2722.7	
July	3697.1		478.9		1182.0		2036.2		2729.6	
August	3717.0	6.7	480.3	4.8	1187.3	5.1	2049.4	8.2	2735.1	2.6
September	3733.7		478.3		1193.3		2062.1		2738.8	
October	3750.9		476.9		1198.6		2075.4		2743.4	
November	3770.4	6.2	478.1	0.3	1203.7	5.6	2088.6	7.9	2747.7	2.1
December	3794.2		483.5		1209.4		2101.3		2756.1	
Change Dec(90)/Dec(89)		6.6		4.2		5.2		8.0		2.4
Change Dec(89)/Dec(88)		6.5		-3.8		7.0		8.9		2.1

RETAIL SALES

	Retail Sales PROJ.	Retail Sales % change	Non-Auto Durables PROJ.	Non-Auto Durables % change	Auto (Million Units) PROJ.	Auto (Million Units) % change	Nondurable Sales PROJ.	Nondurable Sales % change	Auto Sales PROJ.	Auto Sales % change
July	143.56		22.80		10.2		88.90		31.85	
August	144.86	7.5	23.15	3.6	11.5	21.1	88.98	5.1	32.72	17.2
September	145.29		22.89		10.6		89.43		32.97	
October	143.36		22.82		8.8		89.18		31.36	
November	144.56	-0.7	23.01	0.8	8.5	-59.2	90.02	3.6	31.52	-12.5
December	145.05*		23.14*		8.5*		90.46*		31.45*	
January 1990	145.88		23.06		9.4		90.83		31.99	
February	146.63	6.3	23.11	1.8	9.7	55.1	91.24	6.2	32.28	10.0
March	147.08		23.10		9.7		91.65		32.33	
April	147.32		23.14		9.6		92.03		32.15	
May	148.21	4.3	23.22	2.3	9.9	10.0	92.37	5.0	32.62	3.7
June	148.67		23.30		10.0		92.66		32.71	
July	149.41		23.37		10.4		93.07		32.97	
August	149.99	5.0	23.35	3.4	10.8	25.3	93.49	5.1	33.15	4.0
September	150.23		23.53		10.0		93.96		32.74	
October	150.49		23.65		9.3		94.38		32.46	
November	151.03	3.6	23.87	7.1	9.2	-33.2	94.78	5.6	32.38	-4.3
December	152.11		23.95		9.7		95.23		32.93	
Change Dec(90)/Dec(89)		4.9		3.5		14.1		5.3		4.7
Change Dec(89)/Dec(88)		4.5		3.5		-25.4		6.5		-1.1

PROJ. includes current information until the * and the projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	1.420		1.026		0.394		1.281	
August	1.329	-4.3	0.990	1.2	0.339	-18.2	1.328	-6.0
September	1.264		0.971		0.293		1.319	
October	1.428		1.024		0.404		1.356	
November	1.361	8.2	1.015	4.8	0.346	18.7	1.333	2.9
December	1.304*		0.983*		0.321*		1.267*	
January 1990	1.355		1.013		0.342		1.278	
February	1.377	1.8	1.021	4.9	0.356	-6.6	1.293	-7.9
March	1.379		1.024		0.355		1.304	
April	1.377		1.033		0.344		1.301	
May	1.394	4.0	1.038	6.6	0.356	-3.0	1.316	5.2
June	1.381		1.036		0.345		1.307	
July	1.398		1.044		0.354		1.313	
August	1.395	2.8	1.036	-0.3	0.359	12.4	1.316	1.0
September	1.388		1.025		0.363		1.305	
October	1.369		1.026		0.343		1.284	
November	1.361	-8.4	1.007	-8.5	0.354	-8.3	1.281	-8.3
December	1.360		1.004		0.356		1.285	
Change Dec(90)/Dec(89)		4.3		2.1		10.9		1.5
Change Dec(89)/Dec(88)		-17.3		-13.8		-26.4		-16.5

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	133.7		81.6		194.3		409.6		341.7	
August	137.9	9.3	84.2	5.7	193.6	-14.7	415.8	-3.4	343.1	-7.3
September	137.6		86.5		191.8		415.9		342.8	
October	138.4		88.0		193.6		420.1		345.9	
November	139.5*	8.6	88.3*	20.2	196.5*	5.3	424.3*	9.3	348.4*	5.6
December	139.8		87.9		197.2		424.9		347.4	
January 1990	139.1		85.6		198.3		423.0		345.0	
February	138.8	-1.1	85.8	-12.1	198.2	7.1	422.8	0.1	343.5	-3.7
March	138.6		84.4		200.9		423.9		343.5	
April	139.3		84.7		202.5		426.5		344.5	
May	139.1	0.4	85.1	-0.6	203.9	10.2	428.1	4.4	344.4	0.3
June	138.5		85.6		204.6		428.7		343.8	
July	138.6		86.2		206.7		431.5		344.9	
August	139.2	0.5	86.5	6.7	206.8	6.9	432.5	5.1	344.9	0.9
September	139.6		86.9		208.8		435.3		346.0	
October	140.1		87.3		208.5		435.9		345.4	
November	139.7	2.7	87.6	5.3	207.9	3.4	435.2	2.6	344.0	-0.9
December	140.4		88.1		208.1		436.6		344.1	
Change Dec(90)/Dec(89)		0.4		0.2		5.5		2.8		-0.9
Change Dec(89)/Dec(88)		4.5		-1.0		-2.6		-0.0		-4.3

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	370.8		122.03		41.45		34.26	
August	371.5	6.8	126.77	-4.2	37.13	-9.6	36.15	8.9
September	370.9		125.23		35.34		35.73	
October	371.9		124.35		35.99		34.16	
November	373.6*	2.8	130.68	8.5	38.99	-8.6	33.90	-12.1
December	375.3		126.75*		36.42*		34.72*	
January 1990	377.0		124.22		35.92		35.32	
February	378.4	5.2	124.94	-8.2	36.23	-10.7	35.47	14.9
March	379.6		124.53		36.14		35.63	
April	381.2		124.78		36.25		35.69	
May	382.9	5.0	124.86	1.2	36.55	5.6	35.86	4.2
June	384.7		125.18		36.98		35.97	
July	386.6		125.56		37.03		36.11	
August	388.5	5.9	125.76	2.2	36.85	3.4	36.28	5.0
September	390.2		125.59		36.82		36.45	
October	392.5		125.87		36.51		36.62	
November	394.5	6.3	125.90	-0.2	36.56	-0.2	36.78	3.8
December	396.2		124.98		36.57		36.47	
Change Dec(90)/Dec(89)		6.0		-1.4		0.4		5.0
Change Dec(89)/Dec(88)		5.6		-4.1		-7.6		6.3

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	787.6		8.19		141.9		83.7	
August	790.4	6.8	8.94	-3.0	142.5	1.1	83.9	-1.9
September	790.6		9.23		142.1		83.4	
October	793.9		8.36		141.3		82.8	
November	797.0*	3.9	8.81	-5.4	141.5	-1.8	82.7	-4.4
December	800.5		8.83*		141.8*		82.7*	
January 1990	803.6		8.89		141.3		82.2	
February	806.7	4.9	8.96	14.1	141.1	-0.8	82.0	-3.3
March	810.0		9.02		141.3		81.9	
April	813.5		8.74		141.5		81.8	
May	816.8	5.1	8.93	-2.7	141.6	1.1	81.6	-1.9
June	820.2		9.02		141.8		81.5	
July	824.2		9.05		142.0		81.5	
August	827.9	5.5	8.87	7.5	142.1	1.4	81.3	-1.5
September	831.5		9.26		142.3		81.2	
October	836.3		8.54		142.5		81.2	
November	840.7	6.2	8.97	-8.4	142.7	1.5	81.1	-1.1
December	844.3		9.08		142.8		81.0	
Change Dec(90)/Dec(89)		5.5		2.8		0.7		-2.1
Change Dec(89)/Dec(88)		6.2		-12.5		1.0		-1.7

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	124.5		113.5		112.2		126.7	
August	124.5	2.4	113.1	-0.6	111.4	-1.3	126.8	3.2
September	124.7		114.1		111.9		127.1	
October	125.3		114.6		112.4		127.8	
November	125.8	3.9	114.5	4.3	112.2	2.3	128.3	4.5
December	126.2*		115.2*		112.8*		128.7	
January 1990	127.0		116.2		113.7		129.1	
February	127.8	6.0	117.0	7.2	114.5	6.3	129.5	4.0
March	128.2		117.1		114.4		130.0	
April	128.5		116.9		114.6		130.4	
May	128.9	3.8	117.2	1.5	115.2	3.4	130.9	4.3
June	129.3		117.5		115.7		131.3	
July	129.7		117.8		116.2		131.8	
August	130.2	4.1	118.3	3.8	116.5	3.0	132.2	4.1
September	130.7		118.8		115.4		132.6	
October	131.1		119.2		116.7		133.0	
November	131.5	4.1	119.5	4.1	117.1	3.8	133.5	3.9
December	131.9		119.8		117.6		133.9	
Change Dec(90)/Dec(89)		4.5		4.0		4.3		4.0
Change Dec(89)/Dec(88)		4.7		4.7		4.3		4.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	130.4		111.3		123.3		141.4		119.9	
August	130.3	2.1	111.6	1.9	122.5	-1.4	141.9	4.1	121.2	4.2
September	130.6		111.2		122.8		142.2		121.3	
October	131.4		110.9		123.8		143.0		121.4	
November	131.9	5.0	111.2	-0.7	124.3	4.6	143.4	4.6	121.8*	3.5
December	132.3*		111.4*		124.7*		143.9*		122.3	
January 1990	132.7		111.5		125.1		144.4		122.6	
February	133.1	3.4	111.7	2.1	125.5	4.0	144.9	4.2	123.1	4.0
March	133.6		112.0		125.9		145.5		123.4	
April	134.1		112.4		126.3		146.0		123.8	
May	134.5	4.4	112.7	3.5	126.7	3.9	146.5	4.5	124.3	4.1
June	135.1		113.0		127.1		147.1		124.7	
July	135.5		113.4		127.4		147.6		125.1	
August	135.9	4.1	113.5	2.5	127.8	3.5	148.2	4.6	125.4	3.8
September	136.4		113.3		128.2		148.8		125.8	
October	136.7		113.2		128.6		149.3		126.2	
November	137.3	3.9	113.3	-0.2	129.1	4.0	149.9	4.7	126.5	3.6
December	137.7		113.5		129.5		150.5		126.9	
Change Dec(90)/Dec(89)		4.1		1.9		3.8		4.6		3.8
Change Dec(89)/Dec(88)		4.3		-0.2		5.3		4.4		4.4

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.
July	-8.24		144.0		5255		4148		- 9.9
August	-10.10	-7.5	144.8	0.0	5286	6.2	4169	3.0	- 3.1
September	-8.51		145.2		5301		4171		- 5.9
October	-10.20		144.6		5318		4161		- 7.3
November	-9.76*	-36.2	144.6	0.2	5345	4.9	4166	0.3	- 8.9
December	-9.05		145.0*		5368		4171		-14.2
January 1990	-9.53		145.2		5380		4167		-20.3
February	-9.86	14.1	145.5	2.0	5401	4.5	4170	0.4	-20.1
March	-8.54		145.7		5426		4174		-16.2
April	-8.76		145.3		5448		4180		-14.5
May	-8.54	26.5	145.4	0.1	5477	5.5	4184	1.3	-14.7
June	-8.56		145.8		5500		4189		-15.7
July	-8.42		146.1		5536		4200		-18.8
August	-8.28	13.2	146.4	2.4	5556	6.2	4203	1.9	-21.3
September	-8.26		146.6		5583		4210		-24.9
October	-8.59		146.2		5613		4220		-27.2
November	-8.73	-15.4	145.7	-1.1	5642	6.2	4226	2.2	-25.6
December	-8.55		146.0		5671		4235		-23.6
Change Dec(90)/Dec(89)		5.5		0.7		5.6		1.5	
Change Dec(89)/Dec(88)		16.2		-0.1		6.5		2.4	

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	99.12		175.5		8.31		185.15	
August	100.44	0.4	175.3	-6.8	8.22	-20.7	192.93	39.6
September	101.87		158.9		8.13		193.02	
October	98.92		155.7		8.00		192.49	
November	97.99	-10.8	159.9	-27.0	7.90	-14.0	188.50	1.9
December	96.05*		155.6		7.85*		192.76*	
January 1990	95.89		150.8		7.81		197.43	
February	96.15	-7.2	152.4	-11.6	7.79	-8.3	199.20	15.0
March	95.53		153.7		7.64		197.53	
April	94.26		156.6		7.70		193.42	
May	94.55	-6.8	154.8	10.0	7.73	-0.5	190.26	-12.2
June	93.72		156.5		7.78		191.43	
July	93.78		160.3		7.88		191.94	
August	92.29	-5.0	157.1	8.6	7.93	11.1	188.26	-3.1
September	92.85		160.3		8.02		190.45	
October	90.46		166.4		8.16		187.55	
November	90.66	-10.9	163.1	16.2	8.31	17.5	183.46	-8.8
December	89.86		166.5		8.34		186.67	
Change Dec(90)/Dec(89)		-6.4		7.0		6.2		-3.2
Change Dec(89)/Dec(88)		4.5		-20.2		-12.9		24.1

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	290.4		777.2		3117.5		9.24		7.61	
August	290.9	2.8	777.4	1.5	3136.5	7.5	8.99	-23.9	7.74	-26.9
September	292.5		781.1		3156.2		9.02		7.74	
October	293.2		787.7		3176.8		8.84		7.64	
November	293.3	4.1	790.0	6.3	3199.1	7.9	8.55	-19.6	7.69	-4.1
December	296.2*		794.1*		3214.8*		8.41*		7.52*	
January 1990	298.3		798.9		3229.7		8.17		7.36	
February	300.4	8.3	802.6	6.2	3245.3	6.4	7.93	-26.7	7.15	-20.9
March	301.8		806.3		3264.7		7.77		7.04	
April	303.3		810.5		3279.3		7.68		6.97	
May	305.2	6.7	814.7	6.1	3294.0	6.3	7.73	-11.4	7.02	-9.1
June	306.7		818.5		3315.8		7.75		7.05	
July	308.0		822.1		3331.4		7.79		7.08	
August	309.3	5.6	825.7	5.6	3347.5	6.4	7.83	6.2	7.12	7.4
September	310.5		829.3		3365.9		7.89		7.22	
October	311.4		831.3		3380.7		8.11		7.37	
November	312.5	4.3	833.5	3.7	3394.1	5.6	8.36	27.7	7.53	23.7
December	313.7		835.1		3407.8		8.52		7.69	
Change Dec(90)/Dec(89)		5.9		5.2		6.0		1.3		2.3
Change Dec(89)/Dec(88)		3.8		0.5		4.7		-4.0		-8.5

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	8.94		6.96		8.68		8.76		10.98	
August	8.96	-20.1	7.06	-8.5	8.57	-30.2	8.64	-31.0	10.50	-22.4
September	9.01		7.26		8.70		8.78		10.50	
October	8.92		7.22		8.53		8.60		10.50	
November	8.89	-3.5	7.14	1.5	8.35	-8.9	8.39	-9.7	10.50	-5.9
December	8.86*		7.00*		8.47*		8.53*		10.50*	
January 1990	8.79		6.93		8.23		8.31		10.03	
February	8.77	-7.0	6.90	-12.8	8.01	-18.0	8.10	-16.7	10.00	-18.7
March	8.63		6.81		7.88		7.97		9.88	
April	8.66		6.84		7.79		7.88		9.50	
May	8.63	-2.9	6.80	-2.5	7.75	-11.7	7.83	-11.3	9.50	-17.6
June	8.71		6.87		7.84		7.95		9.50	
July	8.88		7.01		7.79		7.87		9.50	
August	8.95	14.4	7.10	16.8	7.85	3.1	7.96	3.6	9.50	4.9
September	9.06		7.21		7.92		8.04		9.84	
October	9.17		7.25		8.12		8.24		10.00	
November	9.28	14.2	7.34	13.6	8.46	31.1	8.59	31.5	10.26	29.4
December	9.35		7.42		8.63		8.73		10.50	
Change Dec(90)/Dec(89)		5.5		6.0		1.9		2.3		0.0
Change Dec(89)/Dec(88)		-7.4		-8.0		-7.0		-7.8		0.0

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	290.4		777.2		3117.5		9.24		7.61	
August	290.9	2.8	777.4	1.5	3136.5	7.5	8.99	-23.9	7.74	-26.9
September	292.5		781.1		3156.2		9.02		7.74	
October	293.2		787.7		3176.8		8.84		7.64	
November	293.3	4.1	790.0	6.3	3199.1	7.9	8.55	-19.6	7.69	-4.1
December	296.2*		794.1*		3214.8*		8.41*		7.52*	
January 1990	298.3		798.9		3229.7		8.17		7.36	
February	300.4	8.3	802.6	6.2	3245.3	6.4	7.93	-26.7	7.15	-20.9
March	301.8		806.3		3264.7		7.77		7.04	
April	303.3		810.5		3279.3		7.68		6.97	
May	305.2	6.7	814.7	6.1	3294.0	6.3	7.73	-11.4	7.02	-9.1
June	306.7		818.5		3315.8		7.75		7.05	
July	308.0		822.1		3331.4		7.79		7.08	
August	309.3	5.6	825.7	5.6	3347.5	6.4	7.83	6.2	7.12	7.4
September	310.5		829.3		3365.9		7.89		7.22	
October	311.4		831.3		3380.7		8.11		7.37	
November	312.5	4.3	833.5	3.7	3394.1	5.6	8.36	27.7	7.53	23.7
December	313.7		835.1		3407.8		8.52		7.69	
Change Dec(90)/Dec(89)		5.9		5.2		6.0		1.3		2.3
Change Dec(89)/Dec(88)		3.8		0.5		4.7		-4.0		-8.5

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	8.94		6.96		8.68		8.76		10.98	
August	8.96	-20.1	7.06	-8.5	8.57	-30.2	8.64	-31.0	10.50	-22.4
September	9.01		7.26		8.70		8.78		10.50	
October	8.92		7.22		8.53		8.60		10.50	
November	8.89	-3.5	7.14	1.5	8.35	-8.9	8.39	-9.7	10.50	-5.9
December	8.86*		7.00*		8.47*		8.53*		10.50*	
January 1990	8.79		6.93		8.23		8.31		10.03	
February	8.77	-7.0	6.90	-12.8	8.01	-18.0	8.10	-16.7	10.00	-18.7
March	8.63		6.81		7.88		7.97		9.88	
April	8.66		6.84		7.79		7.88		9.50	
May	8.63	-2.9	6.80	-2.5	7.75	-11.7	7.83	-11.3	9.50	-17.6
June	8.71		6.87		7.84		7.95		9.50	
July	8.88		7.01		7.79		7.87		9.50	
August	8.95	14.4	7.10	16.8	7.85	3.1	7.96	3.6	9.50	4.9
September	9.06		7.21		7.92		8.04		9.84	
October	9.17		7.25		8.12		8.24		10.00	
November	9.28	14.2	7.34	13.6	8.46	31.1	8.59	31.5	10.26	29.4
December	9.35		7.42		8.63		8.73		10.50	
Change Dec(90)/Dec(89)		5.5		6.0		1.9		2.3		0.0
Change Dec(89)/Dec(88)		-7.4		-8.0		-7.0		-7.8		0.0

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ECONOMIC FORECASTING CENTER

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
January 1990

Dr. Donald Ratajczak, Director
For Release: Monday, February 5, 1990

INTEREST RATES SHOULD FALL WITH INFLATION IN THE SPRING

The economy is neither as slow as those declaring a recession has already begun or as inflationary as those who see ready reasons why the interest rates should have increased 0.75 percentage points in the past four weeks and could increase further. To be sure, economic activity has stalled in the late fall and early winter months. The 0.5% gain in GNP for the fourth quarter still may be revised downward to show a negative. Indeed, the 0.4% drop in manufacturing inventories for December suggests that total inventory investment was overstated in the preliminary report. The trade balances also could be revised downward when more information is available. Thus, a negative fourth quarter still is a distinct possibility.

Also, economic activity remains sluggish in January. The employment report was surprisingly strong, with payrolls rising by 275,000 and the diffusion index measuring the hiring activity of 349 industries rebounding to a near normal 59%. However, the 104,000 increase in construction employment was caused by unusually mild weather in January following especially severe December weather. Some reduction in construction activity is likely if more normal weather surfaces in the next few months. In addition, the retail employment gains reflected the absence of normal seasonal hiring during the Christmas season. That is why retail employment fell 30,000 in December. Thus, the post Christmas layoffs were less intense than expected by the seasonal factors. More normal retail activity certainly is expected in subsequent months. Nevertheless, the index of hours worked expanded by 0.6% in January and almost certainly will now increase for the quarter. Offsetting these clear gains is the weakness in manufacturing. Industrial activity almost certainly fell sharply in January, as clearly signalled by the purchasing managers' survey. Auto layoffs were nearly 100,000, and some of those are permanently lost jobs from plant closings.

Of course, the good news associated with these signs of continuing industrial weakness is the apparent reductions in inventories that such production curtailments are achieving. Activity already is well below sales, suggesting that if sales can remain at current levels or improve, activity will begin improving before the end of the quarter. Looking at initial unemployment claims, the waves of layoffs hit their peaks in late December, when many construction workers were temporarily idled by the weather, and early January. The insured unemployment rate peaked early in January at 2.4% and has again trended down to 2.2% as the month ended. This clearly indicates that the cumulative weakness associated with recession is not upon us.

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Nevertheless, the economy is not yet clear of the recessionary risk. Rising unemployment, interest rates and inflation have worked their will upon consumer confidence. Consumers are showing the highest concern in more than two years according to the Conference Board survey. The Sindlinger survey, which registers changes in perceptions, clearly shows diminished confidence about the economy in most states. Unfortunately, that publication equated this reduction from normal anticipations as a reduction from normal conditions. As a result, states that are growing more slowly than normal, but are growing, were included as recessionary along with states that clearly are experiencing recessionary behavior. Moreover, states that have survived the auto layoffs are shown as robust, when the real interpretation is that the expected disaster did not materialize. Thus, Sindlinger's surveys, while appropriately registering deviations from normal perceptions, cannot be used alone to declare the presence of recession.

Even if the consumer surveys are not yet consistent with recession, they show a clear reduction in consumer confidence that could lead to further dips in final sales. Indeed, auto sales during the second ten days of January slipped to a sluggish 6.8 million for domestically produced cars from 8.1 million ten days earlier despite the presence of dealer incentives during both periods. A close examination of consumer spending patterns will be necessary in the next few months to insure that recessionary behavior does not surface from this inventory adjustment and weather induced inflationary interlude.

During this period of uncertainty, many bond analysts have been bewildered to witness a sharp rise in interest rates despite clear evidence of a sluggish economy. Certainly, the winter weather has added to inflationary concerns, but those inflationary problems are not spilling over into hourly earnings. The hourly earnings index actually showed its strongest seasonally adjusted gains during the second period of 1989 and have been experiencing no further acceleration since that time. The especially small 0.1% gain during January clearly was distorted by the surge of seasonally adjusted retail employees that surfaced, but t the 3.7% gain from the previous year, down from more than 4% early in the fall certainly confirms that wage inflation is not intensifying at this time. Therefore, the temporary surge in inflationary pressures caused by the cold weather should be reversed in the spring with little damage to the underlying inflationary pressures.

A surge in long-term bond rates without any substantial evidence of rising core inflation leads to alternative explanations of why the bond market is behaving so badly. The chief argument currently used is that foreign interest rates have risen, as they have from 5% to 7% for ten year Japanese bonds, and from 6% to 7.5% for ten year German bonds. This narrowing of the interest rate differential is said to lower the attractiveness of American assets, leading to reduced purchases of stocks and bonds by foreign investors. As a result, interest rates have soared in the United States.

Certainly, rising interest rates abroad cannot be ignored by the United States, but there are several ways to respond to those changes. First, the increase in interest rates in Japan appears to be related to uncertainties surrounding the February 18 election. Japanese are less comfortable buying Japanese bonds until those uncertainties diminish. This provides no reason for them to become less willing to buy American bonds. In fact, the narrowing interest rate differential with Japan restores asset equilibrium and requires no change in our asset values, until the election is history and that uncertainty is removed. This is confirmed by the relative weakness in the Japanese yen. If the interest rate differential were attracting capital, the yen would be strengthening rapidly.

The German interest rate move is related to changes in monetary restraint in Europe in an effort to tame an inflation rate of more than 3%. Such monetary restraint should attract capital flows from other investors, either leading to a widening of the interest rates or a change in relative currency values. Obviously, the strong German mark indicates that strengthening currency values was used to restore balance in the capital accounts. But if currency values were changed to restore balance, then interest rate differential changes are not needed to do the same thing. Indeed, countries can regain control over their own domestic markets by permitting free fluctuations of currency values, which apparently has been done. To count the narrowing interest rates as the cause of both the change in currencies and the need for higher interest rates in the United States is to assign two events to one instrument. (Of course, a bit of both events could be used to restore equilibrium, but that certainly eliminates the need to restore the old interest rate differentials, as some analysts have claimed).

Certainly, to the extent that a weak dollar against the German Mark leads to higher import prices and inflationary pressures associated with higher capacity utilization of export oriented industries, interest rates would be justified to rise in the United States. But that means that higher inflationary pressures, not a change in the interest rate differential for any inflationary pressures is responsible for the higher interest rates.

Also, countries can counter the impact of rising interest rates abroad by changing their investment-savings behavior at home. In our analysis concerning the implications of Eastern Europe, we mentioned that world inflation may initially be increased by the re-industrialization of that sector. However, falling defense spending in the United States, by lowering defense spending and reducing domestic borrowing needs, could withstand the higher inflation and interest rates worldwide. Although the President's initial budget did not show vigor in reducing defense, his restraint in other areas led to only a 3% nominal increase in expenditures. Assuming an addition 1% gain because of too rosy estimates of interest rates, that still means that the structural deficit has been reduced by nearly $30 billion. Furthermore, his new initiative for further reducing troops in Europe means that further gains are likely in lowering the structural deficit. This certainly is a large enough shift in dissavings by the Federal Government to offset any interest rate differential upon domestic interest rates.

If the interest rate differential argument has been overblown, what explains the rapid rise in interest rates? Although some soft spots are present in this explanation, the winter's price inflation sharply increased the demand for money. Political pressures assured that the Federal Reserve could not counter this pressure with rising interest rates. As a result, Federal Reserve liabilities have soared, but the higher cash purchases of items such as gasoline, fruits, and vegetables meant that this surging monetary base was partially restrained by currency growth. Bond investors, aware of the surging potential reserves and their inflationary implications if not withdrawn in a timely fashion, sold their portfolios.

Of course, if the monetary base is not slowed once the temporary shift in money demand is reversed, higher inflation and economic activity is in store for later this year. However, assuming the money demand shift is temporary, a substantial slowing in the growth of the monetary base is likely when winter prices give way to spring declines. The Federal Reserve may not ease short term interest rates until that base is moped up, but the base, interest rates and currency demand all should come tumbling down in the spring.

Monthly Statistical Highlights

	JAN 1989	FEB 1990	MARCH 199
Payroll Employment		+113,000	+141,000
Index of Hours Worked		+0.2%	+0.2%
Household Employment		+84,000	+132,000
Civilian Unemployment Rate		5.4%	5.4%
Personal Income	+0.4%	+0.6%	+0.5%
Savings Rate	5.4%	5.6%	5.7%
Personal Consumption	+0.7%	+0.6%	+0.4%
Retail Sales	+1.6%	+0.5%	+0.1%
Auto Sales	9.5*	9.5*	9.4*
Housing Starts	10.6%	-2.6%	+0.2%
Housing Permits	-1.6	-3.3%	-0.6%
Construction Expenditures	+0.9%	-0.2%	+0.6%
Business Inventories	+0.4%	+0.4%	+0.4%
Orders for Durable Goods	-3.7%	-0.1%	+0.3%
Orders - Nondefense Capital Goods	-13.3%	-4.2%	+0.8%
Industrial Production	-0.5%	+0.2%	+0.1%
CPI	+0.9%	+0.4%	+0.3%
PPI	+1.8%	+0.3%	-0.3%
Consumption Deflator	+0.5%	+0.4%	+0.3%
Leading Indicators	-0.1%	-0.1%	+0.2%
Currency Index	-1.8%	+0.0%	-2.4%
Equity Index	-2.7%	-1.9%	-0.2%
Real GNP (annual rate)	-0.3%	+0.6%	+1.2%
M1 (annual rate)	-1.5%	+4.9%	+4.4%
M2 (annual rate)	+2.9%	+5.7%	+5.6%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Although manufacturing employment fell by 112,000, auto and auto related industries accounted for virtually all the decrease. The manufacturing diffusion index actually rose to 48.2%, which still means contraction but clearly shows that the weakness is heavily concentrated. The seasonal and weather distortions in construction and retail still would not have led to sluggish employment growth if they were removed. Activity was strong in the service components even with no growth in government payrolls. The workweek also was surprisingly stable for the reduction in auto employment that occurred.

Our tables are not revised for this late breaking report, but the January gains in hours worked and the weakness in hourly earnings (although partially distorted downward by the surge in retail employment) indicate that the index of hours worked will increase during the first quarter while the hourly earnings index will continue growing by less than 4%. Thus, positive growth is likely in this quarter while no acceleration in wage inflation is evident.

The participation rates were surprisingly low in January, suggesting that some underestimate of the labor force may have occurred. If so, the stability in unemployment still could be changed to rising unemployment later in the winter.

PERSONAL INCOME AND OUTLAYS-Although special factors had little impact on overall personal income they led to higher wage gains and lower increases in farm incomes and transfer payments than otherwise would prevail. A rebound in interest income could lead to higher personal income gains than currently projected for the first quarter. Obviously, the surge in wage income contributed to a substantial squeeze in corporate profitability. To the extent that auto bonuses biased the fourth quarter upward, slower wage gains are expected early in 1990. This should reduce the decline in profits, but a reversal of the downtrend in interest rates probably will limit the moderation.

Involuntary consumption due to the winter weather accounted for the weak savings. More than $15 billion of service expenditures was for heating and electricity that normal would not be needed. The mild January will throw service consumption below trend. However, higher gasoline and vegetable prices will continue the wave of involuntary consumption with sharp gains in nondurables. A rebound in auto sales also will lead to a surge in durables purchases. By February, however, the weather induced consumption should ease. Currently, the modestly declining projection of real consumption appears to be valid and will allow some further modest gains in savings. However, the consumer could become discouraged, leading to slower gains in durable consumption. This might still cause a mild recession but is currently not expected.

CONSTRUCTION-The weather apparently had less impact upon construction expenditures than upon construction employment in December. Indeed, construction on single family housing units actually increased, while nonresidential activity, especially commercial, was down sharply. Private institutional construction also is beginning to soften. A weather related rebound ins expected in January, but this weakness in private nonresidential activity is in response to overbuilding and significant financing constraints. This sector could be even weaker than projected, as orders are down about 3% for this activity. Public construction continued to be strong as rebuilding from natural catastrophes continued. Some softness is expected in this sector following that rebuilding effort, although the timing of the weakness could be delayed until the second quarter.

A weather related rebound in housing activity is expected, but rising interest rates and financing problems associated with the capital lending requirements of the recent thrift bailout legislation should substantially restrain homebuilding through much of this year. Financing restraints are expected to be most intense for multi-family units.

BUSINESS ACTIVITY-Aircraft orders continue to provide a distorted view of manufacturing activity. Virtually all the surge in durable orders is the result of large aircraft orders from two domestic airlines and a few foreign carriers. Of course, the Boeing strike also impacted shipments, causing weakness in spending of durable goods. As the strike is over, some improvement in shipments is likely. On the other hand, no early rebound in durable goods orders should materialize, now that most of the big orders are already placed.

Reduced utility usage and the January shut-down of the auto industry should lead to little industrial activity during the first quarter despite stronger production in aircraft. This weakness in industrial activity should permit further slack to develop in capacity utilization. As a result, price pressures will be diminished and orders will remain sluggish.

PRICES-The winter prices are easily seen in the PPI and the CPI but are only modestly apparent in the consumption deflator and the GNP deflator. This is because little acceleration in service prices is expected. However, natural gas distributors will be adjusting their contract prices upward all year to account for the losses they suffered from spot purchases of gas during the cold spell. Industrial prices actually continue to moderate once the freeze effects on energy materials and energy related products are reversed. Inflation during the first quarter clearly is higher than previously expected, but inflation for the year has not significantly increased.

MISCELLANEOUS-Rising oil prices and imports should prevent any significant improvement in trade balances during the year. However, the especially weak trade report for December appears to be an aberration.

Rising interest rates abroad clearly have a foreign exchange implication, which should lead to declining dollar values throughout the year. However, the stock market should begin to rally once corporate profitability begins improving in the spring. Renewed declines in interest rates are responsible for this improvement along with continued moderation in wage increases. The market probably reached its high the first trading day in January, but no dramatic decline is expected. Indeed, the stock market appears to be settling into a churning posture for the year.

FINANCIAL MARKETS

If sector flows of funds are analyzed, surging interest rates are not surprising. Forced consumption through January because of the unexpected cold led to declines in household savings. Some savings improvement now is expected in the spring, followed by modest upward drift in savings for the remainder of the year. As that latter drift will be accompanied by gradual increases in housing investment, this means the household sector substantially lowered its support to credit markets through January. Some additional contributions are expected in the spring before the household sector returns to a neutral impact upon credit markets during the second half of the year.

The government sector increased borrowings during the first quarter as a result of diminished tax collections, the increased borrowing needs of the RTC, and a stubbornly unchanged deficit. After all, the government also suffered from higher energy prices during the freeze. These deficits will remain in the $150 billion range in the spring and then fall toward $100 billion by the end of 1990. Therefore, the government will be diminishing its borrowing needs. State and local governments probably will continue to use previously accumulated reserves, but little further erosion in their surpluses is seen.

Of course, the corporate sector suffered from a profit squeeze and an unexpected $10 billion energy bill. Some of that energy payment went to local producers, who may have enhanced profits, but a substantial portion flowed abroad. As a result, corporate cash flow fell sharply, leading to smaller declines in commercial paper rates than in federal funds rates. With banks slowly tightening their lending requirements, CD rates fell sharply, but the financial restraints begun by banks had not yet significantly lowered the investment needs of corporations. As a result, corporate cash flow problems exerted substantial pressures upon interest rates. These pressures should persist through the winter and then ease in the spring as adjusted profits begin improving. Late in the year, a further erosion of profitability caused by rising interest and wage costs once again will exert cash flow problems. Higher investment activity at that time will again exert upward pressures upon interest rates.

Foreign investors were seeking alternatives as the dollar began weakening and the interest rate differentials narrowed. These narrower differentials should persist and the dollar probably will weaken further. As a result, foreign investors probably will not support American assets as diligently as in the past. Coupled with corporate cash flow problems in the winter, this foreign reluctance did help to lower bond prices. By the spring, however, the foreigner should not be sufficient to dictate interest rate movements. Moreover, if the dollar falls sharply, then investors may presume that further declines are unlikely. This could rally dollar assets for the prevailing interest rate differential. After all, higher interest rates in the United States can persist only if the dollar continues to fall against other currencies.

Thus, interest rates probably will not return to their low levels of November, but long-term government bond yields should again fall to 8 percent by the end of spring. Slight upward drift in rates then can be expected in the summer and fall.

EQUITY MARKETS-During January, the only force working in favor of equity values was the certainty that San Francisco could not lose to Denver. Corporate profits were falling sharply, especially the non-petroleum based corporations. Interest rates were rising. Foreign investors were seeking alternative investments, and economic conditions appeared especially uncertain. Now, the uncertainty is gradually lifting. The bond market still must weather substantial government supply, but conditions for lower interest rates should be in place before the end of February. Corporate profits probably are still eroding, but the collapse in profitability should be less than in the fourth quarter. Thus, by spring, the only remaining negative should be the foreign investor.

All of this suggests that the stock market could right itself in the spring. While such an outcome is possible, the market really has not fully discounted the earnings deterioration and interest rate reversal that developed in recent weeks. Unless interest rates decline, our formula suggests that stock market should fall to 2300. Therefore, upside potential in this market is not substantial.

In this environment some caution is suggested. Nevertheless, utilities should perform well through the spring. A rebound in technology stocks is expected this summer. Indeed, that sector may lead the market during the second half. Construction related industries remain weak and so do retailers. Cyclical stocks probably should be avoided, as any rebound in economic activity should be weak. However, multinationals should again look appetizing as Eastern Europe begins to develop.

Thus, some securities look desirable, but the overall market should show little direction this year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	PROJ.	% change
July	108767		129.2		117459		5.3	9.69	
August	108887	2.1	128.5	2.3	117550	0.7	5.3	9.69	4.2
September	109096		128.9		117419		5.3	9.74	
October	109171		129.2		117585		5.3	9.78	
November	109393	1.7	129.0	0.2	117836	1.0	5.3	9.78	3.9
December	109535		128.6		117888		5.3	9.84	
January 1990	109632*		128.4*		117987*		5.4	9.88*	
February	109745	1.4	128.7	-0.9	118071	1.5	5.5	9.90	4.3
March	109886		128.8		118203		5.5	9.93	
April	110027		128.9		118305		5.6	9.97	
May	110165	1.5	129.0	1.2	118440	1.4	5.6	10.01	4.2
June	110319		129.1		118585		5.6	10.04	
July	110443		129.2		118696		5.7	10.07	
August	110593	1.6	129.4	1.3	118850	1.6	5.6	10.11	4.1
September	110755		129.6		119019		5.6	10.14	
October	110901		129.7		119176		5.6	10.18	
November	111053	1.7	129.9	1.5	119328	1.5	5.6	10.22	4.4
December	111211		130.0		119472		5.6	10.25	
Change Dec(90)/Dec(89)		1.5		1.1		1.3			4.2
Change Dec(89)/Dec(88)		2.3		1.4		1.5			4.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	4.444		2.645		209.8		3.799		3.589	
August	4.457	5.1	2.651	7.2	183.7	-10.8	3.809	6.5	3.625	7.5
September	4.467		2.668		191.8		3.813		3.622	
October	4.506		2.697		212.0		3.845		3.633	
November	4.548	7.9	2.699	7.6	240.5	72.7	3.884	7.4	3.643	4.5
December	4.569		2.716		218.5		3.899		3.681	
January 1990	4.585*		2.727*		212.6*		3.920*		3.707*	
February	4.614	6.4	2.744	5.9	222.1	-6.1	3.950	7.5	3.728	8.4
March	4.638		2.758		225.8		3.970		3.744	
April	4.663		2.772		224.3		3.983		3.759	
May	4.687	6.6	2.786	6.4	234.2	19.4	4.012	6.4	3.778	5.7
June	4.710		2.799		232.0		4.031		3.799	
July	4.732		2.811		226.7		4.049		3.822	
August	4.760	6.3	2.829	6.2	229.8	-0.5	4.072	6.4	3.842	6.8
September	4.783		2.843		233.1		4.092		3.859	
October	4.809		2.858		233.3		4.112		3.879	
November	4.837	6.7	2.875	6.7	235.8	6.0	4.136	6.4	3.900	6.4
December	4.861		2.888		230.7		4.156		3.925	
Change Dec(90)/Dec(89)		6.4		6.3		5.6		6.6		6.6
Change Dec(89)/Dec(88)		8.6		7.9		35.5		8.2		6.9

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	3485.3		478.4		1130.0		1877.0		2673.3	
August	3521.2	7.6	498.9	13.4	1129.7	3.6	1892.6	8.7	2703.3	5.6
September	3517.8		480.9		1134.6		1902.3		2693.8	
October	3528.3		470.6		1134.7		1923.0		2684.4	
November	3538.6	3.2	467.8	-11.9	1138.2	2.7	1932.6	10.3	2681.4	-0.1
December	3575.6		474.5		1144.4		1956.7		2702.2	
January 1990	3601.5*		479.2*		1161.2*		1961.1*		2707.9*	
February	3621.4	7.1	481.4	9.1	1166.8	9.7	1973.2	7.5	2713.2	3.5
March	3637.1		483.4		1169.1		1984.6		2716.8	
April	3651.0		484.5		1169.2		1997.3		2720.5	
May	3669.5	6.6	487.3	5.1	1172.0	2.4	2010.2	7.8	2726.4	2.0
June	3690.0		490.2		1176.3		2023.5		2731.4	
July	3712.6		494.3		1181.7		2036.6		2738.9	
August	3731.8	6.7	494.2	5.2	1187.9	5.3	2049.7	8.0	2742.9	2.5
September	3747.8		492.0		1193.3		2062.5		2746.4	
October	3766.9		491.4		1199.9		2075.6		2750.6	
November	3787.7	6.2	491.6	0.2	1207.2	6.4	2088.9	7.9	2755.1	2.0
December	3812.1		498.4		1211.9		2101.8		2764.1	
Change Dec(90)/Dec(89)		6.6		5.0		5.9		7.4		2.3
Change Dec(89)/Dec(88)		6.9		-1.6		6.5		9.5		2.6

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	143.56		22.80		10.2		88.90		31.85	
August	144.86	7.5	23.15	3.6	11.5	21.1	88.98	5.1	32.72	17.2
September	145.29		22.89		10.6		89.43		32.97	
October	143.43		22.81		8.8		89.45		31.17	
November	144.18	-1.5	22.97	-1.0	8.5	-57.4	90.16	4.6	31.06	-17.1
December	144.44		22.89		8.8		90.72		30.83	
January 1990	146.81*		22.85*		9.5*		92.01*		31.95*	
February	147.50	9.5	23.01	1.5	9.5	40.2	92.46	10.4	32.03	13.1
March	147.69		23.06		9.4		92.64		31.99	
April	147.32		23.05		9.7		92.65		32.35	
May	148.05	2.4	23.15	3.2	9.8	16.4	92.87	2.4	32.57	7.4
June	149.25		23.26		10.0		93.21		32.78	
July	150.15		23.37		10.6		93.64		33.14	
August	150.63	6.4	23.35	4.0	10.6	28.4	94.13	5.3	33.15	5.9
September	150.81		23.43		10.2		94.56		32.82	
October	151.26		23.55		9.5		95.08		32.63	
November	151.86	4.1	23.71	5.5	9.4	-30.2	95.66	6.4	32.49	-3.4
December	153.01		23.84		9.8		96.03		33.14	
Change Dec(90)/Dec(89)		5.9		4.2		11.4		5.9		7.5
Change Dec(89)/Dec(88)		3.8		2.4		-22.8		6.7		-2.3

PROJ. includes current information until the * and the projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	1.420		1.026		0.394		1.281	
August	1.329	-4.3	0.990	1.2	0.339	-18.2	1.328	-6.0
September	1.264		0.971		0.293		1.319	
October	1.423		1.023		0.400		1.356	
November	1.342	-1.3	1.003	-7.4	0.339	18.3	1.342	11.3
December	1.235		0.904		0.331		1.337	
January 1990	1.366*		0.992*		0.374*		1.316*	
February	1.330	2.8	0.973	2.2	0.357	4.6	1.273	-16.8
March	1.332		0.981		0.351		1.265	
April	1.329		0.985		0.344		1.261	
May	1.348	1.9	0.996	5.5	0.352	-7.5	1.267	-3.4
June	1.370		1.005		0.365		1.293	
July	1.376		1.014		0.362		1.296	
August	1.373	7.9	1.018	8.4	0.355	6.6	1.291	5.8
September	1.376		1.015		0.361		1.288	
October	1.369		1.016		0.353		1.275	
November	1.351	-4.8	1.007	-2.0	0.344	-12.4	1.255	-8.7
December	1.355		1.009		0.346		1.258	
Change Dec(90)/Dec(89)		9.7		11.6		4.5		-5.9
Change Dec(89)/Dec(88)		-21.7		-20.8		-24.1		-11.9

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	133.6		81.5		195.2		410.3		343.4	
August	137.5	7.9	84.4	6.3	194.4	-13.1	416.3	-2.8	345.7	-4.7
September	136.8		86.6		192.8		416.2		345.7	
October	137.0		85.4		193.2		415.6		344.7	
November	135.9	-0.7	91.4	19.0	194.4	-2.1	421.7	2.4	348.9	0.8
December	134.3*		86.9*		191.7*		412.9*		340.7*	
January 1990	135.6		87.6		193.5		416.7		343.2	
February	135.2	-0.7	86.2	-9.1	194.3	3.3	415.7	0.1	341.6	-0.1
March	135.7		86.1		196.2		418.0		342.6	
April	136.3		85.8		196.3		418.4		342.4	
May	136.5	3.2	85.8	-0.6	196.6	4.6	418.9	2.6	342.0	2.4
June	136.9		86.4		197.7		421.0		343.1	
July	137.3		86.6		199.6		423.5		344.0	
August	137.9	3.2	86.3	4.4	201.5	8.9	425.7	5.7	345.0	2.0
September	137.7		86.8		202.2		426.7		345.0	
October	138.5		87.1		202.9		428.5		345.6	
November	138.7	3.1	87.5	4.9	203.5	4.2	429.7	3.9	345.7	0.3
December	138.9		88.0		203.1		430.0		345.1	
Change Dec(90)/Dec(89)	3.4			1.3		5.9		4.1		1.3
Change Dec(89)/Dec(88)	0.4			-2.1		-5.3		-2.8		-6.1

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

BUSINESS ACTIVITY

	Manufacturers' Inventories PROJ.	Manufacturers' Inventories % change	Durable Goods Orders PROJ.	Durable Goods Orders % change	Non-Defense Capital Goods Orders PROJ.	Non-Defense Capital Goods Orders % change	Non-Defense Capital Shipments PROJ.	Non-Defense Capital Shipments % change
July	370.8		122.03		41.45		34.26	
August	371.5	6.8	126.77	-4.2	37.13	-9.6	36.15	8.9
September	370.9		125.23		35.34		35.73	
October	371.7		124.26		35.98		34.17	
November	373.0	2.2	130.31	15.9	38.82	26.6	33.98	-12.8
December	374.5*		133.54		46.04		34.43	
January 1990	377.8		128.63*		39.92*		35.02*	
February	381.5	8.6	128.53	-2.1	38.23	-13.0	35.59	16.1
March	383.2		128.87		38.54		35.88	
April	384.2		127.64		37.25		35.99	
May	384.9	4.6	127.96	-3.0	37.57	-15.7	36.14	7.6
June	386.3		127.55		36.99		36.32	
July	387.9		127.96		37.22		36.43	
August	389.2	4.5	128.55	2.4	37.63	2.7	36.58	4.8
September	391.0		128.93		37.71		36.72	
October	392.9		128.78		37.51		36.88	
November	394.8	5.6	129.14	4.2	37.67	9.0	37.03	6.8
December	396.5		131.46		39.84		37.64	
Change Dec(90)/Dec(89)		5.9		-1.6		-13.5		9.3
Change Dec(89)/Dec(88)		5.8		1.1		16.8		5.4

	Business Inventories PROJ.	Business Inventories % change	Defense Shipments PROJ.	Defense Shipments % change	Industrial Production PROJ.	Industrial Production % change	Capacity Utilization PROJ.	Capacity Utilization % change
July	787.6		8.19		141.9		83.7	
August	790.4	6.8	8.94	-3.0	142.5	1.3	83.9	-1.6
September	790.6		9.23		142.3		83.6	
October	793.2		8.25		141.8		83.1	
November	796.8	3.7	8.76	3.5	142.3	0.2	83.1	-2.7
December	800.2*		9.58		142.8		83.3	
January 1990	805.3		8.73*		142.1*		82.7*	
February	808.2	6.0	8.81	-3.4	142.4	0.0	82.6	-2.7
March	811.7		8.82		142.6		82.5	
April	813.5		8.74		142.7		82.3	
May	815.8	3.9	8.83	2.1	142.9	1.5	82.3	-1.4
June	819.3		8.93		143.1		82.3	
July	823.6		8.56		143.3		82.2	
August	827.2	5.5	8.87	2.9	143.6	1.9	82.2	-0.6
September	830.8		9.26		143.8		82.1	
October	835.3		8.44		144.0		82.1	
November	839.6	6.1	8.67	-5.4	144.2	1.7	82.0	-0.8
December	843.7		9.21		144.3		81.9	
Change Dec(90)/Dec(89)		5.4		-3.9		1.1		-1.7
Change Dec(89)/Dec(88)		6.2		-5.1		1.7		-1.2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	124.5		113.5		112.2		126.7	
August	124.5	2.4	113.1	-0.6	111.4	-1.3	126.8	3.2
September	124.7		114.1		111.9		127.1	
October	125.3		114.6		112.4		127.6	
November	125.8	3.9	114.5	4.4	112.2	1.7	128.0	3.5
December	126.2		115.3		112.3		128.4	
January 1990	127.3*		117.4*		114.3*		129.1	
February	127.8	6.5	117.7	9.7	114.6	7.8	129.6	4.9
March	128.2		117.4		114.4		130.0	
April	128.5		117.1		114.5		130.3	
May	128.9	3.7	117.2	-0.8	114.9	1.6	130.7	3.5
June	129.4		117.5		115.3		131.1	
July	129.9		117.9		115.7		131.5	
August	130.4	4.5	118.3	3.3	116.1	2.9	131.9	3.7
September	130.8		118.5		115.4		132.3	
October	131.3		119.0		116.2		132.7	
November	131.7	4.2	119.5	4.1	116.7	3.5	133.1	3.7
December	132.1		119.8		117.3		133.5	
Change Dec(90)/Dec(89)		4.7		3.9		4.5		4.0
Change Dec(89)/Dec(88)		4.7		4.9		3.9		4.0

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	130.4		111.3		123.3		141.4		119.5	
August	130.3	2.1	111.6	1.9	122.5	-1.4	141.9	4.1	120.4	1.8
September	130.6		111.2		122.8		142.2		120.4	
October	131.4		111.3		123.8		143.0		120.6	
November	132.0	4.6	111.7	1.2	124.3	4.3	143.5	4.8	120.9	2.7
December	132.3		112.1		124.4		144.0		121.2*	
January 1990	133.0*		112.0*		125.7*		144.6*		121.4	
February	133.5	4.8	112.1	1.6	126.3	6.6	145.1	4.6	121.7	2.7
March	133.9		112.3		126.5		145.7		122.0	
April	134.2		112.4		126.5		146.3		122.2	
May	134.6	3.5	112.6	1.7	126.8	2.2	146.8	4.8	122.5	2.5
June	135.1		112.8		127.3		147.4		122.7	
July	135.6		113.0		127.7		148.0		123.1	
August	136.1	4.3	113.3	1.8	128.1	3.9	148.6	4.9	123.4	3.1
September	136.5		113.0		128.5		149.2		123.7	
October	137.0		113.2		128.9		149.8		124.0	
November	137.5	4.2	113.4	1.1	129.3	3.8	150.5	5.1	124.3	2.9
December	137.9		113.6		129.7		151.1		124.6	
Change Dec(90)/Dec(89)		4.2		1.3		4.3		4.9		2.8
Change Dec(89)/Dec(88)		4.3		0.4		5.0		4.4		3.5

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.
July	-8.24		144.1		5255		4148		- 9.9
August	-10.10	-7.5	144.8	-0.0	5286	6.2	4169	3.0	- 3.1
September	-8.51		145.0		5301		4171		- 5.9
October	-10.25		144.5		5317		4166		- 7.3
November	-10.50	-97.5	144.7	0.3	5337	4.3	4169	0.5	- 8.9
December	-11.08		145.0*		5356		4170		-11.2
January 1990	-10.11*		144.9		5382		4169		-21.3
February	-9.86	26.1	144.8	0.5	5405	5.2	4171	0.3	-23.1
March	-9.54		145.0		5428		4175		-20.4
April	-9.23		145.3		5444		4178		-15.5
May	-9.36	17.2	145.4	1.5	5467	4.8	4183	1.2	-11.7
June	-9.56		145.6		5495		4191		-14.7
July	-9.26		145.4		5521		4198		-17.8
August	-9.03	13.1	145.7	0.7	5545	5.6	4204	1.8	-20.3
September	-8.89		146.0		5566		4207		-23.2
October	-8.65		146.0		5596		4217		-25.2
November	-8.73	17.2	145.7	0.6	5621	5.8	4223	2.1	-24.6
December	-8.55		146.0		5652		4234		-23.6
Change Dec(90)/Dec(89)		22.8		0.7		5.5		1.5	
Change Dec(89)/Dec(88)		-2.5		-0.1		6.5		2.4	

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	99.12		175.5		8.31		185.15	
August	100.44	0.4	175.3	-6.8	8.22	-20.7	192.93	39.6
September	101.87		167.0		8.13		193.02	
October	98.92		156.3		8.00		192.49	
November	97.99	-10.8	158.9	-31.5	7.90	-13.2	188.50	1.7
December	94.56		155.8		7.90		192.54	
January 1990	92.86*		150.3		8.29*		187.43*	
February	92.88	-7.2	149.8	-16.5	8.42	20.4	183.92	-12.4
March	90.67		150.2		8.22		183.53	
April	90.91		154.6		8.10		187.71	
May	91.89	-6.8	156.7	18.3	7.98	-13.7	190.26	12.1
June	91.43		158.3		7.95		192.93	
July	92.14		160.3		8.06		192.70	
August	92.65	-5.0	158.3	8.0	8.11	4.6	189.12	1.2
September	91.87		160.1		8.13		190.80	
October	90.46		161.7		8.16		192.00	
November	90.77	-10.9	160.1	2.9	8.24	6.7	188.26	-3.6
December	89.96		160.3		8.30		187.13	
Change Dec(90)/Dec(89)		-4.9		2.9		5.1		-2.8
Change Dec(89)/Dec(88)		2.9		-20.3		-12.3		23.9

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	290.4		777.2		3116.8		9.24		7.61	
August	290.9	2.8	777.4	1.5	3135.8	7.5	8.99	-23.9	7.74	-26.9
September	292.5		781.1		3153.5		9.02		7.74	
October	293.2		787.7		3173.6		8.84		7.62	
November	293.7	3.6	789.6	6.9	3196.2	7.9	8.55	-19.1	7.49	-9.4
December	294.7		797.6		3217.0		8.45		7.42	
January 1990	300.3*		796.6*		3224.6*		8.27*		7.44*	
February	301.8	11.0	799.8	4.1	3239.6	5.6	8.22	-16.5	7.41	-6.7
March	302.9		802.7		3254.3		8.21		7.29	
April	303.7		805.5		3267.7		8.03		7.12	
May	305.0	4.5	809.6	5.0	3285.3	5.7	7.86	-16.5	6.97	-19.8
June	306.4		813.5		3301.8		7.72		6.86	
July	308.0		818.7		3321.7		7.68		6.83	
August	309.3	5.7	822.6	6.6	3337.8	6.6	7.78	-5.8	6.95	-3.6
September	310.6		826.3		3353.5		7.80		6.98	
October	311.7		830.1		3368.9		7.96		7.06	
November	312.8	4.6	833.5	5.1	3382.7	5.5	8.07	21.5	7.13	15.3
December	313.8		835.1		3395.6		8.39		7.32	
Change Dec(90)/Dec(89)		6.5		4.7		5.6		-0.7		-1.3
Change Dec(89)/Dec(88)		3.3		0.9		4.8		-3.5		-9.7

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
July	8.94		6.96		8.68		8.76		10.98	
August	8.96	-20.1	7.06	-8.5	8.57	-30.2	8.64	-31.0	10.50	-22.4
September	9.01		7.26		8.70		8.78		10.50	
October	8.92		7.22		8.53		8.60		10.50	
November	8.89	-3.5	7.14	1.1	8.35	-11.5	8.39	-12.6	10.50	-5.9
December	8.86		6.98		8.29		8.32		10.50	
January 1990	9.01*		7.12*		8.23*		8.20*		10.03*	
February	9.09	7.6	7.18	1.9	8.17	-10.5	8.19	-11.2	10.00	-17.4
March	9.06		7.14		8.08		8.18		10.00	
April	8.97		7.03		7.93		8.01		10.00	
May	8.83	-8.0	6.92	-11.1	7.75	-17.6	7.88	-14.2	9.76	-9.9
June	8.80		6.87		7.64		7.76		9.50	
July	8.88		6.98		7.69		7.82		9.50	
August	8.95	3.2	7.07	6.7	7.75	-1.0	7.89	0.0	9.50	-10.0
September	8.98		7.11		7.82		7.94		9.50	
October	9.03		7.15		7.91		8.03		9.84	
November	9.11	7.8	7.24	11.0	8.06	18.1	8.15	16.7	10.00	24.9
December	9.18		7.33		8.28		8.40		10.29	
Change Dec(90)/Dec(89)		3.6		5.0		-0.1		1.0		-2.0
Change Dec(89)/Dec(88)		-7.4		-8.3		-9.0		-10.1		0.0

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ECONOMIC FORECASTING CENTER

ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
February 1990

Dr. Donald Ratajczak, Director
For Release: Monday, March 5, 1990

INVENTORY ADJUSTMENT NEARING COMPLETION WITHOUT A RECESSION IN SIGHT

Declining inventories are responsible for most of the economic weakness that has been recorded in the fall and early winter months. Some reduction in utility consumption following the freeze also has distorted economic data, as industrial production fell more than the auto assembly plant reductions alone would generate. However, some of this weakness is being offset by unsustainable gains in construction activity. Indeed, the housing sales for January indicate that virtually all the housing gains in that month were weather related. Sharp declines in construction should develop as weather becomes more normal. (Although the weather remained warm in February, it was unusually wet. Thus, some construction correction should be apparent in that month's statistics).

The surprising 0.2% decline in business inventories during December clearly means that inventory liquidations were well underway in other manufacturing even before the auto plants shut down for January. With auto incentives and production curtailments, auto inventories now are at sustainable levels. Thus, production should pick up in the spring. Indeed, some manufacturing inventories have become sufficient tight that industrial prices are slowing beginning to rise. The Journal of Commerce price index reached a low in late January and has since been trending slowly upward. Vendors delivery delays, which has plunged through the latter half of 1989, have now begun to rebound. Indeed, corporate profits, which have performed terribly over the past six months, should begin rebounding by the spring.

Our projections of significant inventory gains during the first quarter should be adjusted for inflation. Because of sharp price increases in petroleum product, nondurable inventories are rising sharply at this time. Also, the winter scare has caused a substantial build up of petroleum inventories. If further cold weather can be avoided, these inventories may exert downward pressures upon prices in the spring. When the inventories are appropriately adjusted, real inventory accumulations are continuing to slow. Some inventory build up then will be expected later in the spring.

Although the recessionary fears are receding, the economy is not expected to surge upward. First, housing activity will weaken with more normal weather. Despite the surge in January, housing starts probably will be no higher this year than in 1989. Second, the dollar has been rallying slightly in recent months. While this should have little impact on America's competitiveness in international markets, some foreign buyers may wait until the dollar again weakens before placing more orders for American goods. Third, durable

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goods orders have softened following an exceptionally strong fall. Now that Boeing is again shipping aircraft at normal rates, little growth in capital spending is expected for the next few months. Fourth, the consumer still shows a strong desire to raise savings. Despite higher consumption because of the availability of auto incentives, consumers have been remarkable at restraining purchases. Virtually all the price increases for energy and foods was offset by reduced purchases. Involuntary consumption of food and energy components experiencing sharp price increases was strongly resisted. Such consumer restraint is expected to continue as they rebuild their savings to more than 6%.

With little gain in export activity, capital spending, or consumer spending, the inventory adjustment should not lead to sharp gains in economic activity. Indeed, unemployment probably will drift upward. Also restraining activity is the reduction in real spending for government goods and services. Defense spending should fall more than 3% after adjustment for inflation. Many state and local governments are experiencing tight budgetary conditions that preclude any substantial spending initiatives there. Of course, weak economic growth will continue to exert restraint upon government programs.

Although the reduced concern about recession and some rebound in industrial prices explains some of the increase in interest rates, market analysts remained enamored with the thought that our interest rates are being determined by foreign pressures. In the past two months, interest rates in Japan have increased more than a percentage point, while the increase in Germany is closer to two percentage points. Our rates have increased about 0.75 percentage points during the same time.

Some of the increase in interest rates abroad is the result of rising inflationary fears there. If their rates rise by a percentage point because inflationary fears are that much higher, no change in the attractiveness of foreign bonds is created by that interest rate rise. Indeed, failure of interest rates to rise sufficiently to reflect those inflationary concerns would lead to an exodus from that country's financial instruments. Just such a flight may be developing in Japan, where the Bank of Japan has refused to raise interest rates because the stock market has become unsettled there. However, the absence of interest rate increases leads to capital flight, which clearly is reflected in currency values. As the currency falls, so does the attractiveness for Japanese stocks. Indeed, the failure to raise rates in Japan has intensified the problems in their equity markets. Further declines in Japanese security values is virtually assured.

But why are inflationary fears rising abroad? The catalyst in Japan appears to be the tight labor markets and the wage negotiations that currently are occurring. Wage gains may average more than six percent in the latest round of negotiations, as labor markets continue to tighten. Year end bonuses were a surprisingly large 8 percent, and labor leaders are asking similar gains for their basic wages. Although productivity will prevent unit labor costs from rising more than 2-3% in Japan, the rapid wage gains raise fears that the recent 3% inflation will not subside even though nearly half of it was caused by the 3% consumption tax, which is not scheduled to change further. Of course, this initial fear of wage inflation has been re-enforced by inflationary fears associated with the falling yen. Until the yen stabilizes, those fears will remain strong. The currency markets clearly are saying that further interest rate increases are needed in Japan before the yen will stabilize. (However, when the yen stabilizes, inflation probably will subside to 2%, leading to attractive real rates of return in Japan. Thus, once the yen stops falling, it probably will begin rising, with little rest in between.)

In Germany the concern is about the amount of marks that will be created to integrate the currencies of East and West Germany. At the official but unused exchange rate of one to one, the amount of marks created would be clearly inflationary. East Germans would turn in their hoards of currency for the West German mark and probably embark upon a spending spree. (The hoards were accumulated because no consumer goods were available for most East Germans). Only the creation of desirable savings instruments could forestall such a burst of activity. Furthermore, any more realistic conversion rate, such as 4 or 5 to one would impoverish the East German pensioners. Thus, they will be integrated into the West German system, requiring substantial budgetary deficits. With both fiscal and monetary stimulus, inflation is inevitable.

Of course, the Germans are not expected to tolerate inflation long. Therefore, tight monetary policy and liberal budgetary spending should combine to send real interest rates higher. This fear of a liquidity squeeze has caused interest rates to soar in Germany. However, the high interest rates should strengthen the mark, leading to substantial currency gains for those owning German assets. Thus, the stock market and the mark have not stumbled as badly as the bond market. Eventually, German bonds will be attractive, but only after unification has been completed. At that time, the mark could soar even as interest rates again come down in Germany. At this time, however, too much uncertainty surrounds the unification question to attract foreign investments to the German bond market. If no one wants to buy German bonds, how can their higher rates exert upward pressures upon rates in the United States?

Eventually, the German bonds will become attractive, but probably at higher interest rates than currently prevail. At that time, the dollar will fall in value and interest rates will be pressured upward in the United States, but that time will not arrive until after the mark begins appreciating in value. Such a condition has not yet developed.

Monthly Statistical Highlights

	FEB 1989	MARCH 1990	APRIL 199
Payroll Employment	+177,000	+146,000	+114,000
Index of Hours Worked	-0.3%	+0.2%	+0.1%
Household Employment	+224,000	+102,000	+97,000
Civilian Unemployment Rate	5.4%	5.4%	5.5%
Personal Income	+0.4%	+0.6%	+0.6%
Savings Rate	6.2%	6.4%	6.0%
Personal Consumption	+0.2%	+0.4%	+0.6%
Retail Sales	-0.2%	+0.1%	+0.6%
Auto Sales	9.7*	8.9*	9.2*
Housing Starts	-15.5%	-1.5%	-1.7%
Housing Permits	-29.8%	1.6%	-2.0%
Construction Expenditures	-1.3%	+0.5%	-1.4%
Business Inventories	+0.3%	+0.5%	+0.6%
Orders for Durable Goods	+4.4%	-0.3%	-0.3%
Orders - Nondefense Capital Goods	+4.5%	-0.8%	-2.1%
Industrial Production	+0.7%	+0.2%	+0.2%
CPI	+0.4%	+0.3%	+0.3%
PPI	+0.1%	-0.1%	+0.2%
Consumption Deflator	+0.1%	+0.3%	+0.3%
Leading Indicators	-0.2%	-0.2%	+0.2%
Currency Index	-0.1%	+0.6%	+1.0%
Equity Index	-3.3%	+1.5%	+0.9%
Real GNP (annual rate)	0.0%	+2.9%	+1.7%
M1 (annual rate)	+8.1%	+3.3%	+6.0%
M2 (annual rate)	+8.4%	+5.7%	+5.6%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Recent employment reports have raised several mysteries. First, the household estimates of employment have increased much more slowly than payroll estimates. Although multiple job holdings are growing rapidly, This discrepancy may reflect overestimates of payroll gains, which will be adjusted downward when the benchmark revisions are completed. Second, after several years of little change, the average workweek in the total economy appears to be deteriorating sharply while the workweek in manufacturing remains strong. Increasing use of temporary employees may account for this. Of course, the most favorable condition has been a slowing in the hourly earnings index in recent quarters. Although the minimum wage legislation is expected to exert some upward pressures upon hourly earnings later this year, rising unemployment should prevent any serious increase in wage induced inflation.

February's employment report is expected to show offsetting patterns, as construction declines and retail shows little change at the same time as manufacturing spurts because some of those 100,000 laid off auto workers return to work. Construction could fall further in March, causing sluggish employment growth for the next few months.

PERSONAL INCOME AND OUTLAYS-Several unusual factors were offsetting in the January personal income report. Annual federal wage increases added $3.5 billion to government wage gains. Social security adjustments for a 4.7% cost of living gain added $14.7 billion, while rising social security taxes took out $8 billion. Excluding these factors, personal income would have increased $10 billion less.

On the outlay side, a rebound in auto sales was offset by reductions in consumer services because unusually light utility purchases were required following substantial purchases in December. However, consumers were surprisingly restrained in their purchases of nondurables as prices rose. Indeed, they behaved as if the price elasticities for food and energy were nearly 1, rather than the short-run 0.4-0.5 that most models expect. As prices decline, real purchases of nondurables should rebound. Because of this consumer restraint in the face of rising prices, savings rose above 6% during the winter quarter. Normally, a freeze leads to involuntary consumption that reduces savings.

The slowing in wage and salary earnings during the winter quarter is largely the absence of bonus payments in the auto industry that distorted wage receipts during the fourth quarter. Also, personal income has benefitted from a rebound in rental income following the hurricane and earthquake of the third and fourth quarters.

CONSTRUCTION-Weather undoubtedly improved construction activity in January. However, the housing starts were not supported by increased sales, as single family sales plunged 7.1%. Moreover, some of the multi-family activity was motivated by an attempt to avoid a handicap access requirement that will add costs to rental units. The surge in permits certainly was caused by that change in requirements. Excluding weather factors, construction is not strong. A reversal of the winter surge is expected in the spring. Also, the public construction area should fall now that highway rebuilding following the catastrophes has been completed. The surge in nonresidential construction was in commercial and industrial properties. Perhaps, the ability to do foundations in January distorted these areas as well, for the demand for such properties should not yet be improving.

BUSINESS ACTIVITY-Most of the plunge in durable goods in January was the result of reduced aircraft orders and lower shipments and orders of automobiles. The autos will rebound in the next few months. The backlog of aircraft orders is substantial and should not be viewed as a problem sector. However, a sharp drop in orders for communications equipment may be more meaningful. This might mean that activity could be more restrained than initially expected. Although the recovery from the Boeing strike clearly is in the shipments for nondefense capital goods, no substantial growth in capital goods activity is expected in the next twelve months. Our analysis shows that backlogs will grow, but more slowly than in the past.

The surge in inventories really reflects price changes rather than increases in the volume of goods available. Excluding prices, inventories should increase about the same in the next twelve months as they did in the previous twelve months. However, inventories have been restrained in recent months and should strengthen later in the year.

The one area of decided weakness is defense, where shipments should fall in current dollars. Thus, real defense activity probably will be off between three and four percent.

PRICES-Many analysts apparently have not yet determined the magnitude of price increases for the first quarter. Our estimates show that the GNP deflator should rise sharply because of gains in prices of consumer nondurables and petroleum inventories that will not be offset by price moderation for construction goods. However, most of these price gains are expected to be reversed during the spring. As a result, inflation should remain about the same during the next twelve months as it was in the previous twelve.

MISCELLANEOUS-The leading indicators were biased upward in January because of the surge in building permits, which added 0.6 percent to the index. This should be reversed next month. Indeed, a sharp decline in the indicators is not out of the question for February, although a rebound in orders probably will forestall any serious decline. On average, the indicators continue a slow upward path, which is not consistent with the onslaught of recession. Neither does it suggest a surge of activity ahead.

The trade balances were surprisingly favorable in December, as oil prices and volumes had not yet jumped. Balances should deteriorate significantly in January and February because of these changes. Despite a strong dollar, the trade balances have continued to improve. Exports have provided most of the gains, although some displacement of manufacturing imports has occurred in recent months. Perhaps the saying that American producers have regained competitiveness in all markets except those in the United States will soon become untrue.

FINANCIAL MARKETS

In December and early January a case could be made that rising interest rates abroad were forcing up rates in the United States, for the dollar was falling substantially in value. However, the dollar has since regained its footing and is now expected to rally slightly against other currencies in the next few months. Therefore, foreign investors would prefer American bonds, unless interest rates were lower than in the countries were currency values are weakening. Thus, Europeans may now be encouraged to seek assets at home, because their rates are higher than ours. However, the Japanese must still come to our markets. To do otherwise is to substantially reduce dollar adjusted investment returns. Indeed, as the Japanese markets became unsettled late in February, evidence of their presence in our markets appeared.

If our projections are correct, foreign investors will continue to seek American assets through the second quarter and then abandon us during the summer. The may dribble back late in the year.

Fortunately, government borrowing should diminish modestly as the year progresses. Although President Bush cannot achieve a $64 billion deficit, the $110 billion he does accomplish will be substantially better than the $150s that have prevailed during the past three years. Thus, government borrowing should become a decreasing burden upon the credit markets.

The household sector already has increased savings sharply and is not expected to continue doing so. However, housing should remain weak until mortgage rates, which currently are trending upward, begin declining. This may occur during the second half of the year, but household sources and uses of funds will lead to reduced credit market pressures.

During the first quarter corporations were suffering a profits squeeze and had to finance rising petroleum inventories at the same time. They generated substantial credit market pressures. Now that petroleum inventories have improved, this drain upon corporate cash flow should subside. Therefore, interest rate pressures should ease in the spring. However, corporate borrowing could again surface late this year as additional capital expenditures are required. Thus, interest rate pressures should subside through the spring before intensifying again late this year.

The Federal Reserve is expected to ease interest rates in light of a stronger dollar and reduced inflationary pressures in the spring. When the dollar weakens following these actions, no further Federal Reserve ease is expected. Some tightening may appear before year-end as moderate growth rates may add to some inflationary pressures while the dollar is falling in value.

EQUITY MARKETS-The three factors most important in changing equity values are shown in the miscellaneous table next to the New York composite index. As the modest price increases for equity values show, if interest rates fall sufficiently, deterioration in corporate profits and the reduced attractiveness of American assets by foreigners as reflected in the currency index can be offset. In fact, the market probably did not fully discount the profits erosion, as corporate announcements continue to show that profits were worse than expected by analysts. Recent stock market weakness can be explained by the dollar's loss of value, further projected profit erosion, and a sharp increase in interest rates. However, just as all the indicators were unfavorable for equity values in the winter, they all should be favorable in the spring. Therefore, a modest stock market rally could challenge the January market highs before the end of spring. However, before the market can rise too far, foreign investors are expected to lose interest. Then interest rates are expected to rise. While forces will remain mixed, precluding any substantial change in stock market values, a decided downward tilt in equity values is expected to reappear by mid-summer.

In this environment of churning values, selection remains important. Utility issues are recommended until summer. Some regional financial institutions that are not embroiled in real estate problems should also do well. By spring, the technology stocks are expected to emerge as market leaders, although some cyclical issues also may do well once the recessionary fears subside. However, those cyclicals, unlike the technology stocks, should be shed in the spring rally. Caution then is expected later in the year, as the Dow Jones probably trades within a range between 2400 and 2800. The market is expected to be on the lower end of that range by year-end.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	PROJ.	% change
October	109171		129.2		117585		5.3	9.78	
November	109452	1.8	129.1	0.5	117836	1.0	5.3	9.78	3.8
December	109548		128.8		117888		5.3	9.83	
January 1990	109823		129.6		117863		5.3	9.84	
February	110000*	2.2	129.2*	1.1	118087*	0.9	5.4	9.89*	3.7
March	110146		129.4		118189		5.4	9.93	
April	110260		129.5		118286		5.5	9.97	
May	110458	1.7	129.7	0.9	118481	1.5	5.5	10.01	4.2
June	110647		129.9		118663		5.5	10.04	
July	110761		130.0		118755		5.6	10.07	
August	110827	1.5	130.0	1.0	118982	1.5	5.5	10.11	4.1
September	110988		130.1		119010		5.6	10.14	
October	111178		130.3		119204		5.6	10.17	
November	111301	1.6	130.5	1.4	119343	1.4	5.6	10.21	4.2
December	111452		130.7		119467		5.7	10.25	
January 1991	111613		130.9		119698		5.6	10.28	
February	111794	1.8	131.0	1.5	119815	1.7	5.6	10.32	4.2
March	112003		131.1		120019		5.6	10.35	
Change Mar(91)/Mar(90)		1.7		1.3		1.5			4.2
Change Mar(90)/Mar(89)		2.1		1.4		1.0			3.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
October	4.502		2.693		209.1		3.841		3.632	
November	4.544	7.5	2.695	7.0	234.2	59.3	3.881	7.2	3.647	4.8
December	4.567		2.712		214.3		3.898		3.684	
January 1990	4.603		2.728		231.5		3.935		3.703	
February	4.621*	7.9	2.735*	5.7	245.6*	54.5	3.956*	9.0	3.710*	6.6
March	4.649		2.751		256.0		3.982		3.726	
April	4.675		2.766		239.8		3.988		3.748	
May	4.703	6.9	2.782	6.5	257.4	15.0	4.028	6.7	3.771	6.2
June	4.729		2.797		262.0		4.050		3.788	
July	4.751		2.809		261.9		4.068		3.806	
August	4.774	6.2	2.822	5.9	248.7	1.9	4.087	6.6	3.838	6.9
September	4.796		2.834		252.1		4.104		3.852	
October	4.822		2.849		260.0		4.126		3.866	
November	4.850	6.6	2.866	6.5	258.3	7.1	4.150	6.4	3.892	6.3
December	4.878		2.884		257.6		4.174		3.916	
January 1991	4.905		2.900		265.8		4.203		3.937	
February	4.929	6.6	2.914	6.7	267.4	13.9	4.227	7.5	3.960	7.1
March	4.951		2.926		268.4		4.246		3.978	
Change Mar(91)/Mar(90)		6.5		6.3		4.8		6.6		6.8
Change Mar(90)/Mar(89)		6.6		6.7		10.4		6.8		6.6

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption PROJ.	Personal Consumption % change	Durables PROJ.	Durables % change	Nondurables PROJ.	Nondurables % change	Services PROJ.	Services % change	Consumption Real PROJ.	Consumption Real % change
October	3528.1		470.4		1135.2		1922.6		2684.2	
November	3541.6	4.8	467.9	-13.2	1140.4	4.1	1933.3	10.3	2685.0	0.4
December	3578.3		469.1		1152.8		1956.4		2708.7	
January 1990	3598.2		493.4		1155.3		1949.6		2696.0	
February	3605.1*	6.8	484.0*	15.7	1158.6*	5.7	1962.5*	5.3	2695.6*	0.7
March	3620.2		482.4		1162.0		1975.8		2700.1	
April	3641.7		485.9		1167.4		1988.4		2708.0	
May	3663.6	6.1	489.8	1.8	1172.1	4.6	2001.7	8.2	2716.6	2.6
June	3680.7		490.6		1175.6		2014.5		2719.9	
July	3698.5		490.7		1180.2		2027.6		2723.3	
August	3730.3	7.0	503.5	8.1	1185.9	4.6	2040.9	8.1	2739.7	2.9
September	3743.4		500.8		1188.8		2053.8		2740.7	
October	3757.1		495.1		1194.9		2067.1		2738.2	
November	3782.3	6.4	501.0	2.2	1200.4	5.3	2080.9	8.0	2746.9	1.8
December	3806.5		507.0		1206.1		2093.4		2755.0	
January 1991	3826.9		509.1		1211.9		2105.9		2760.1	
February	3848.9	7.1	515.0	9.9	1216.1	5.4	2117.8	7.4	2766.1	2.6
March	3866.2		515.0		1221.0		2130.2		2767.2	
Change Mar(91)/Mar(90)		6.8		6.8		5.1		7.8		2.5
Change Mar(90)/Mar(89)		6.7		4.5		5.4		8.0		2.3

RETAIL SALES

	Retail Sales PROJ.	Retail Sales % change	Non-Auto Durables PROJ.	Non-Auto Durables % change	Auto (Million Units) PROJ.	Auto (Million Units) % change	Nondurable Sales PROJ.	Nondurable Sales % change	Auto Sales PROJ.	Auto Sales % change
October	143.43		22.81		8.8		89.45		31.17	
November	144.39	-1.7	22.98	-2.4	8.5	-56.7	90.32	5.5	31.09	-19.0
December	144.06		22.63		8.9		91.13		30.29	
January 1990	146.39		23.08		10.2		91.39		31.92	
February	146.17*	6.6	22.95*	3.5	9.7*	46.0	91.66*	6.2	31.56*	10.2
March	146.25		22.98		8.9		91.93		31.34	
April	147.08		23.05		9.2		92.36		31.67	
May	147.89	4.1	23.02	1.3	9.5	-9.4	92.73	4.6	32.14	4.6
June	148.26		23.17		9.4		93.01		32.08	
July	148.63		23.30		9.3		93.37		31.96	
August	150.52	5.9	23.34	4.9	10.6	31.7	93.82	4.6	33.36	10.4
September	150.45		23.43		10.2		94.05		32.97	
October	150.28		23.52		8.9		94.53		32.23	
November	151.39	4.1	23.64	5.0	9.3	-27.2	94.97	5.3	32.78	0.2
December	152.51		23.77		9.6		95.42		33.32	
January 1991	153.21		23.74		9.9		95.88		33.59	
February	154.21	7.1	23.86	3.5	10.2	39.3	96.21	5.4	34.14	14.8
March	154.60		23.95		10.1		96.60		34.05	
Change Mar(91)/Mar(90)		5.7		4.2		13.5		5.1		8.6
Change Mar(90)/Mar(89)		4.9		4.0		-8.2		6.1		1.8

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% change is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts PROJ.	Housing Starts % change	Single Family Starts PROJ.	Single Family Starts % change	Multi-Family Starts PROJ.	Multi-Family Starts % change	Housing Permits PROJ.	Housing Permits % change
October	1.424		1.023		0.400		1.356	
November	1.347	1.2	1.010	-5.6	0.337	22.8	1.342	11.3
December	1.254		0.911		0.343		1.376	
January 1990	1.625		1.137		0.488		1.743	
February	1.373*	36.4	1.052*	38.7	0.321*	30.8	1.223*	13.8
March	1.352		1.006		0.346		1.242	
April	1.329		0.985		0.344		1.217	
May	1.351	-25.8	0.996	-23.7	0.355	-31.4	1.244	-39.6
June	1.357		1.005		0.352		1.249	
July	1.371		1.014		0.357		1.266	
August	1.384	9.6	1.018	8.4	0.366	13.2	1.271	12.0
September	1.376		1.015		0.361		1.280	
October	1.369		1.016		0.353		1.275	
November	1.351	-5.3	1.007	-2.0	0.344	-14.3	1.263	-2.0
December	1.355		1.009		0.346		1.260	
January 1991	1.338		0.993		0.345		1.245	
February	1.348	-1.9	0.981	-8.9	0.367	20.6	1.256	-2.3
March	1.369		0.988		0.381		1.275	
Change Mar(91)/Mar(90)		1.3		-1.8		10.1		2.7
Change Mar(90)/Mar(89)		-4.0		2.5		-14.7		1.0

	Non-Residential PROJ.	Non-Residential % change	Public Construction PROJ.	Public Construction % change	Residential Construction PROJ.	Residential Construction % change	Construction Expenditures PROJ.	Construction Expenditures % change	Real Construction Expenditures PROJ.	Real Construction Expenditures % change
October	136.7		84.8		193.1		414.6		343.9	
November	136.9	-2.7	88.9	28.0	191.1	-5.4	416.9	1.7	344.8	-0.4
December	131.5		94.9		190.2		416.6		345.2	
January 1990	137.3		90.9		195.8		424.0		351.3	
February	136.2*	4.1	87.2*	-5.7	195.3*	10.3	418.7*	5.0	346.3*	4.4
March	135.7		87.5		197.5		420.7		347.4	
April	135.5		87.6		191.9		415.0		341.8	
May	135.9	-1.4	87.9	-0.9	191.1	-9.2	414.9	-5.2	341.5	-7.2
June	136.4		88.6		191.6		416.6		342.3	
July	136.7		89.1		195.4		421.2		345.2	
August	137.2	3.8	89.3	6.4	196.1	10.6	422.6	7.4	345.5	4.6
September	137.7		89.8		197.7		425.2		346.5	
October	137.3		89.1		198.4		424.8		345.6	
November	137.8	1.7	90.5	3.6	197.7	3.1	426.0	2.7	346.1	0.2
December	138.2		91.0		197.6		426.8		345.9	
January 1991	138.5		91.6		197.6		427.7		345.8	
February	139.4	4.2	92.0	7.1	198.8	1.6	430.2	3.6	347.2	1.2
March	139.7		91.7		199.6		431.0		347.6	
Change Mar(91)/Mar(90)		2.9		4.8		1.1		2.4		0.1
Change Mar(90)/Mar(89)		-0.2		11.2		-2.3		0.9		0.4

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BUSINESS ACTIVITY

	Manufacturers' Inventories PROJ.	Manufacturers' Inventories % change	Durable Goods Orders PROJ.	Durable Goods Orders % change	Non-Defense Capital Goods Orders PROJ.	Non-Defense Capital Goods Orders % change	Non-Defense Capital Shipments PROJ.	Non-Defense Capital Shipments % change
October	371.7		124.26		35.98		34.17	
November	372.8	1.0	130.18	13.9	38.90	5.5	34.12	-10.3
December	371.5		131.95		44.43		35.00	
January 1990	374.4*		118.16		38.32		35.47	
February	376.2	4.7	123.36*	-20.8	40.03*	-4.1	35.76*	16.7
March	378.3		122.95		39.71		36.13	
April	380.0		122.53		38.86		36.23	
May	381.4	5.6	122.76	2.0	38.73	-8.1	36.49	6.4
June	383.0		120.97		37.99		36.32	
July	384.9		121.48		38.22		36.48	
August	386.2	5.2	122.65	1.2	38.54	1.2	36.65	3.8
September	388.0		123.21		39.16		36.92	
October	390.3		123.46		39.12		36.98	
November	392.1	6.2	123.84	4.9	39.41	8.7	37.03	5.6
December	394.2		124.47		39.84		37.56	
January 1991	396.0		125.16		40.03		37.78	
February	397.8	5.9	125.43	5.1	40.22	7.6	37.94	8.9
March	399.7		125.81		40.32		38.26	
Change Mar(91)/Mar(90)		5.7		2.3		1.5		5.9
Change Mar(90)/Mar(89)		4.8		-1.9		4.1		6.0

	Business Inventories PROJ.	Business Inventories % change	Defense Shipments PROJ.	Defense Shipments % change	Industrial Production PROJ.	Industrial Production % change	Capacity Utilization PROJ.	Capacity Utilization % change
October	793.2		8.25		141.8		83.1	
November	797.0	2.9	8.75	7.3	142.2	-0.2	83.1	-2.7
December	795.2		9.83		142.5		83.1	
January 1990	797.6*		8.55		140.9		81.9	
February	800.2	2.9	8.81*	-9.6	141.9*	-1.4	82.3*	-4.4
March	804.5		8.80		142.2		82.3	
April	809.1		8.74		142.5		82.4	
May	813.0	6.3	8.83	5.3	142.7	3.0	82.3	0.8
June	817.3		8.93		143.0		82.3	
July	821.5		8.66		143.1		82.1	
August	824.4	5.9	8.87	2.9	142.9	0.7	81.7	-2.3
September	828.4		9.16		143.0		81.5	
October	833.3		8.44		143.4		81.6	
November	837.2	6.2	8.67	-5.4	143.7	2.0	81.6	-0.8
December	841.7		9.21		144.0		81.6	
January 1991	845.8		8.79		144.2		81.6	
February	849.7	6.0	8.85	0.8	144.3	1.6	81.4	-1.1
March	853.5		8.73		144.3		81.1	
Change Mar(91)/Mar(90)		6.1		-0.8		1.5		-1.5
Change Mar(90)/Mar(89)		5.1		4.2		1.1		-1.8

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
October	125.3		114.6		112.4		127.6	
November	125.8	3.9	114.5	4.4	112.2	1.7	127.9	3.2
December	126.2		115.3		112.3		128.2	
January 1990	127.7		117.2		114.2		129.4	
February	128.2*	7.9	117.3*	8.8	113.5*	5.5	129.7	5.7
March	128.6		117.2		113.7		130.0	
April	129.0		117.4		114.0		130.4	
May	129.4	3.9	117.6	1.3	114.4	2.1	130.7	3.3
June	129.8		117.8		114.8		131.2	
July	130.3		118.2		115.3		131.6	
August	130.7	4.1	118.2	2.4	115.0	2.6	132.0	3.8
September	131.1		118.5		115.1		132.4	
October	131.6		119.0		116.0		133.0	
November	132.1	4.4	119.4	3.8	116.4	4.4	133.4	4.4
December	132.6		119.8		116.7		133.9	
January 1991	133.2		120.4		117.3		134.4	
February	133.6	4.8	120.7	4.9	117.5	4.4	134.8	4.3
March	134.2		121.4		118.1		135.3	
Change Mar(91)/Mar(90)		4.4		3.6		3.9		4.1
Change Mar(90)/Mar(89)		5.2		4.5		2.9		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
October	131.4		111.3		123.8		143.0		120.6	
November	131.9	3.9	111.8	1.2	124.2	3.7	143.4	4.5	120.9	2.1
December	132.1		112.0		124.0		143.8		120.7	
January 1990	133.5		112.6		126.9		144.6		120.7	
February	133.7*	6.1	112.3*	2.8	126.9*	9.5	145.2*	5.2	120.9*	0.6
March	134.1		112.5		126.7		145.9		121.1	
April	134.5		112.8		126.9		146.5		121.4	
May	134.9	3.4	113.0	1.8	127.2	1.3	147.0	5.1	121.5	2.1
June	135.3		113.1		127.6		147.6		121.7	
July	135.8		113.3		128.0		148.2		122.0	
August	136.2	3.9	113.5	1.2	128.4	3.8	148.7	4.7	122.3	2.7
September	136.6		113.1		128.9		149.3		122.7	
October	137.2		113.8		129.3		149.9		122.9	
November	137.7	4.5	114.0	2.5	129.8	4.3	150.5	4.8	123.1	2.6
December	138.2		114.2		130.3		151.1		123.4	
January 1991	138.7		114.5		130.7		151.7		123.7	
February	139.1	4.3	114.8	2.7	131.2	4.4	152.3	5.0	123.9	2.4
March	139.7		115.0		131.7		153.0		124.0	
Change Mar(91)/Mar(90)		4.2		2.2		3.9		4.9		2.4
Change Mar(90)/Mar(89)		4.3		1.6		4.7		4.6		0.5

PROJ. includes current information until the * and then projections by month thereafter.
% change is the annualized percentage change from the previous quarter.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.
October	-10.25		144.4		5317		4167		- 7.3
November	-10.29	-13.4	144.5	0.3	5337	4.4	4173	0.9	- 8.9
December	-7.17		145.3		5358		4179		-11.2
January 1990	-9.17*		145.3		5402		4175		-21.3
February	-9.46	-5.1	145.0*	0.8	5415	6.3	4175	0.5	-23.1
March	-9.43		144.8		5441		4185		-20.4
April	-8.78		145.0		5465		4191		-15.5
May	-8.93	15.2	145.2	0.6	5489	5.4	4200	2.0	-11.7
June	-9.22		145.5		5518		4206		-12.7
July	-9.26		145.1		5543		4212		-12.8
August	-9.23	-6.2	145.3	0.6	5570	6.1	4220	2.1	-14.6
September	-8.85		145.9		5603		4232		-15.2
October	-8.85		146.1		5631		4234		-18.9
November	-9.23	7.3	146.6	2.4	5658	6.7	4241	2.2	-22.3
December	-8.75		146.2		5701		4258		-22.6
January 1991	-8.94		146.0		5723		4258		-21.5
February	-8.43	18.7	146.3	-0.6	5756	6.5	4270	2.1	-21.9
March	-8.11		145.9		5779		4271		-22.6
Change Mar(91)/Mar(90)	14.0			0.8		6.2		2.1	
Change Mar(90)/Mar(89)	0.6			0.1		5.9		1.7	

	Currency Index		Adjusted Profits		30-Year Government Bonds		New York Composite	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
October	98.92		158.5		8.00		192.49	
November	97.99	-10.3	160.2	-20.0	7.90	-13.2	188.50	1.8
December	94.88		158.6		7.90		192.67	
January 1990	93.00		152.7		8.26		187.96	
February	92.88*	-16.0	152.6	-10.2	8.52*	27.9	181.76*	-12.9
March	93.47		159.3		8.53		184.46	
April	94.42		158.5		8.41		186.15	
May	94.43	3.8	160.7	9.7	8.26	-8.7	192.16	10.8
June	93.15		156.3		8.07		190.30	
July	91.76		155.8		8.11		187.75	
August	90.88	-11.4	158.3	1.7	8.13	-4.8	187.32	-3.3
September	90.93		163.4		8.20		188.82	
October	90.21		159.2		8.36		183.09	
November	91.83	-0.8	165.3	15.2	8.43	14.8	184.68	-10.9
December	90.97		170.2		8.51		180.13	
January 1991	88.87		165.3		8.58		177.52	
February	90.21	-3.4	171.6	7.4	8.72	11.5	177.24	-10.2
March	91.56		166.7		8.70		178.57	
Change Mar(91)/Mar(90)		-2.0		2.9		2.0		-3.2
Change Mar(90)/Mar(89)		-3.6		-20.3		-7.0		12.1

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
October	293.2		788.1		3181.5		8.84		7.62	
November	293.7	4.0	789.4	5.2	3200.8	7.3	8.55	-19.1	7.49	-9.4
December	295.5		794.8		3222.2		8.45		7.42	
January 1990	301.3		794.9		3233.5		8.23		7.55	
February	301.0*	10.1	800.1*	4.3	3255.4*	6.6	8.22*	-16.6	7.63*	3.4
March	301.6		802.3		3270.6		8.24		7.54	
April	302.5		806.2		3285.5		8.13		7.36	
May	303.6	3.2	810.0	5.6	3304.2	6.4	8.02	-9.2	7.21	-16.8
June	304.9		814.1		3323.0		7.95		7.13	
July	306.2		817.6		3338.6		7.81		7.03	
August	307.8	5.5	821.8	5.8	3354.7	6.2	7.78	-10.8	7.01	-10.3
September	309.3		825.2		3370.5		7.83		7.08	
October	310.5		827.4		3386.4		7.99		7.15	
November	311.8	5.4	830.9	4.6	3402.4	5.8	8.17	18.0	7.38	19.5
December	313.3		834.3		3418.5		8.25		7.55	
January 1991	314.5		837.2		3431.2		8.32		7.63	
February	315.9	5.2	840.9	4.8	3447.4	5.3	8.49	16.1	7.74	21.5
March	317.1		843.8		3460.2		8.53		7.81	
Change Mar(91)/Mar(90)		5.1		5.2		5.8		3.5		3.6
Change Mar(90)/Mar(89)		4.2		2.1		6.0		-16.3		-14.8

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change	PROJ.	% change
October	8.92		7.22		8.53		8.60		10.50	
November	8.89	-3.5	7.14	1.1	8.35	-11.5	8.39	-12.6	10.50	-5.9
December	8.86		6.98		8.29		8.32		10.50	
January 1990	8.99		7.10		8.20		8.10		10.11	
February	9.23*	12.4	7.18*	2.7	8.15*	-9.6	8.20*	-11.5	10.00*	-16.5
March	9.24		7.20		8.19		8.25		10.00	
April	9.13		7.11		8.05		8.16		10.00	
May	9.01	-6.5	7.00	-9.0	7.96	-9.9	8.08	-5.1	10.00	-2.9
June	8.86		6.87		7.90		7.99		9.89	
July	8.93		6.92		7.76		7.85		9.50	
August	8.97	-0.7	6.98	-0.4	7.81	-7.3	7.89	-8.3	9.50	-17.3
September	9.05		7.06		7.89		7.97		9.50	
October	9.14		7.15		8.04		8.12		9.93	
November	9.23	12.1	7.24	16.2	8.16	18.6	8.21	18.0	10.00	21.6
December	9.36		7.37		8.28		8.38		10.00	
January 1991	9.44		7.45		8.37		8.44		10.33	
February	9.57	13.5	7.53	16.2	8.55	18.7	8.63	18.7	10.50	20.1
March	9.61		7.61		8.63		8.72		10.50	
Change Mar(91)/Mar(90)		4.0		5.7		5.4		5.7		5.0
Change Mar(90)/Mar(89)		-5.7		-5.1		-17.7		-18.2		-13.0

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
March 1990

Dr. Donald Ratajczak, Director
For Release: Thursday, April 5, 1990

CONSTRUCTION PUTS STRENGTH INTO FIRST QUARTER GNP

Slumping auto production in January, when domestic cars were assembled at a 4.1 million annual rate has put a substantial dent into business inventories. Even with a substantial acceleration in inventory prices because of the surge in prices of energy materials, business inventories apparently are slowing to only a 1.3% annualized rate of expansion as compared with 5.7% during the fall. Thus, inventory accumulations will be anemic during the first quarter. (However, auto assemblies already had rebounded to 5.8 million in February and should be well above 6 million during March). Partially offsetting this weakness is a modest acceleration in real consumption expenditures from an annualized gain of only 0.5% during the fourth quarter to 1.4% in the winter. A rebound in aircraft production also is partially responsible for a gain of 21.2% according to our projections for nondefense capital shipments as opposed to a 10.3% decline in the previous three months. Some of this is offset by a slump in defense shipments, as the military shrinking already had begun in earnest before Eastern Europe changed our perceptions about defense needs. Trade balances also apparently improved during the first quarter, although only one month's worth of data currently is available to make those assessments. When the inventory adjustments, slight acceleration in consumption, surge in capital shipments, but slump in defense shipments all are combined, the first quarter looks a lot like the fourth quarter in terms of total output.

A minor addition to this otherwise lackluster performance is the beginning of Census hiring for the enumeration of our population. That project will cost $1.2 billion dollars and require 440,000 additional people, many of them for only a short period during the winter and spring. Annualized, this will add as much to government spending as defense is subtracting during the first quarter. A further burst of government spending will be recording during the spring before many of the enumerators are let go, causing a decline in government spending during the summer. However, this Census impact will do more to distort payroll employment than actual GNP.

However, the remaining sector, construction is not behaving normally during this springlike winter. After declining slightly during the fall, construction will add about $10 billion to real GNP in the winter before a return to normal subtracts that amount from economic activity in the spring. The result is a gain of 2.1% for first quarter GNP following a sluggish 1.1% gain during the fourth quarter.

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Of course, construction should return to more normal behavior in the spring. That means the $10 billion winter gain will be reversed. As a result, an otherwise relatively robust second quarter should be held to a sluggish gain, currently projected to be 1.8%. With construction neither rising nor falling during the summer, economic growth should approach a normal 2.5%.

By the time the construction distortions run their course, the strong dollar, especially against the Japanese yen, should begin to exert slowing gains for net exports after adjustment for inflation. Also, the surge in commercial aircraft activity should slow to more ordinary gains. Of course, if budgetary stimulus or monetary stimulus was forthcoming, these forces exerting a slowing influence upon the economy would be offset. That is not expected.

Defense shipments may rebound slightly during the spring and summer, but they are expected to again trend downward thereafter. No tax initiatives or other budgetary stimulus is expected to replace the defense slowdown. Indeed, the structural deficit probably will decline by $15 billion during the latter half of this year.

Although monetary policy could change quickly, the Federal Reserve appears to be restraining the growth of monetary aggregates to prevent further acceleration of inflationary pressures. The winter freeze clearly added to price concerns, with the CPI increasing at an annualized 8.3% during the winter. Our estimates of the GNP deflator reveal a gain of 5.6%. This surge in nominal GNP growth from 4.6% during the fall to a projected 7.8% winter gain has not been accommodated by the Fed. Although the monetary base surged by 8.1%, this was necessary to meet the increased demand for currency because of higher gasoline prices and an increased foreign demand for the currency. M1 and M2 both slowed slightly from their previous quarter. Further modest slowing currently is expected during the spring. As a result, interest rates will remain high, only falling after money demand eases substantially late in the spring. This will not be sufficient ease to prevent economic activity from again slowing sharply by the end of this year.

However, the Federal Reserve might forestall this outcome by easing rates sooner. After all, a temporary supply shock should only temporarily raise inflation rates. As the economy demonstrated last year, a drought will raise prices, but if no monetary accommodation of that drought develops, prices then will grow slower than normal until observed inflation once again is joined with underlying inflation. Thus, a similar slowing in inflationary pressures should be observed this year.

Another argument for the Federal Reserve easing sooner is the current weakness of the yen. Such currency movements clearly have been de-stabilizing in Japan and could become worrisome in the United States, both because Japanese producers are becoming more competitive in our country and because financial instability in Japan could begin to reduce demand for American assets by Japanese investors. (As the total size of their portfolios shrink, the American exposure of that portfolio will grow. Initially, this diversity will limit the financial weakness Japan is suffering because of their stock and bond market declines. Ultimately, however, they will restore a more optimum mix of assets, which would lead to some liquidation of American positions). As the Japanese attempt to raise interest rates has unsettled their financial markets without strengthening their currency, it may be necessary for interest rates to fall in the United States to restore more orderly financial markets in Japan.

Excluding a co-ordinated movement of interest rates to shore up the yen, monetary policy will not support economic growth in the latter months of this year or early in 1991.

Monthly Statistical Highlights

	MAR 1990	APRIL 1990	MAY 1990
Payroll Employment	+279,000	+159,000	-34,000
Index of Hours Worked	+0.2%	-0.1%	+0.1%
Household Employment	+137,000	+96,000	-6,000
Civilian Unemployment Rate	5.2%	5.2%	5.3%
Personal Income	+0.6%	+0.5%	+0.3%
Savings Rate	6.3%	6.3%	6.0%
Personal Consumption	-0.0%	+0.5%	+0.5%
Retail Sales	-0.1%	+0.6%	+0.5%
Auto Sales	9.1*	9.3*	9.4*
Housing Starts	-6.0%	-3.9%	-0.7%
Housing Permits	+1.1%	-3.5%	-2.6%
Construction Expenditures	-1.2%	-1.4%	-0.0%
Business Inventories	+0.3%	+0.4%	+0.5%
Orders for Durable Goods	-0.4%	+3.3%	+0.9%
Orders - Nondefense Capital Goods	-1.5%	+8.8%	+2.4%
Industrial Production	+0.3%	+0.2%	+0.2%
CPI	+0.3%	+0.2%	+0.3%
PPI	+0.2%	-0.2%	+0.2%
Consumption Deflator	+0.3%	+0.1%	+0.3%
Leading Indicators	+0.4%	+0.1%	-0.1%
Currency Index	+1.3%	+1.0%	-0.3%
Equity Index	+0.5%	-4.2%	+5.2%
Real GNP (annual rate)	+1.4%	+1.1%	+2.3%
M1 (annual rate)	+4.6%	+3.8%	+3.6%
M2 (annual rate)	+5.5%	+5.3%	+6.6%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Payroll employment will be distorted by the temporary hiring of 440,000 census enumerators and evaluators beginning in March and April. Then, layoffs will occur during the summer months if previous census patterns are followed. Many of these part-timers will be moonlighting or will not consider themselves as holding jobs. As a result, the growing discrepancy between payroll and household estimates of employment should persist. Also, some strikes in transportation services and medical services will be distorting the employment measures as well. Construction workers also appear to have been overcounted on the payrolls during the first quarter. Thus, a dramatic discrepancy between a 3.1% annualized gain for payrolls and a 0.9% gain for household employment raises doubts about the underlying strength of current economic conditions. The hours worked index is consistent with the payroll gains, and clearly suggests a rebound in activity during the first quarter.

At the same time, the hourly wage has actually slowed, although minimum wage legislation should cause an acceleration in that index during the spring. Tight labor market conditions and minimum wage legislation should permit slow upward drift in hourly earnings growth rates during the year.

PERSONAL INCOME AND OUTLAYS-Despite an increase in social security tax rates, personal income has accelerated during the first quarter. The gains have been in property income and in proprietors' income, as both farm subsidies and nonfarm earnings have accelerated. Also, stronger cost of living gains caused transfer payments to temporarily intensify. As the index of hours worked slows, wage and income gains also should slow. In the meantime, a modest decline in tax liabilities as tax brackets are adjusted downward early in the year has caused a spurt in disposable income. This has allowed an increase in savings despite a surge in prices following the winter freeze. Savings are expected to continue rising during the year, although some declines during the summer currently are projected as end of model year incentives again entice consumers to buy automobiles. (Of course, no major catastrophes also has led to a substantial one-time gain in rental income during the winter. More moderate changes in rental incomes are expected through the year).

As incentives again were put on autos, sales surged in January and then slowly subsided. With few incentives during the second quarter, sales again should sag. Model year pricing again should create a surge and sag in auto sales during the summer and fall, as consumers wait for the incentives. Nevertheless, the replacement demand for autos suggests that the bottom of the auto slump probably was reached last fall.

Good weather also aided the sales of home improvement goods and furnishings. This is expected to be reversed modestly during the spring, although our projections currently suggest that the slump in nonauto durables probably is over. A quick glance at the 12% annualized increase in nondurable prices during the winter shows that consumers stopped buying expensive vegetables and tried to reduce gasoline consumption. Although nondurable sales were up 6.9%, this was far less than the increase in prices, suggesting that food and energy may have become more price elastic. If so, greater restraint upon food and energy prices may be forthcoming than currently projected. Of course, the mild winter following a cold December led to slower gains in service expenditures than in the fall. Reduced volume on the stock exchanges also is restraining financial service expenditures. As prices moderate, real consumer spending should intensify, except in those areas where weather or auto pricing is distorting spending patterns.

CONSTRUCTION-Although the February construction expenditures arrived too late to be included in our tables, they showed further extension of the strong growth in January. Residential construction showed the smallest gains, at 1.8%, but a surge in nonresidential private construction and continued gains in public construction suggested that the mild weather continued to aid construction activity. Construction prices are beginning to intensify, but a return to more moderate activity relative to seasonal expectations during the spring should restrain further extensive price increases. However, environmental constraints are distorting lumber prices, which could lead to construction inflation later this year.

Single family housing starts continued to remain surprisingly strong despite the absence of any sales. After falling nearly 8% both in December and again in January, sales of new single family homes increased less than 2% in February. Sales for the quarter should be unchanged from the fourth quarter. Moreover, previously owned homes are showing modest sales declines. The recent rise in mortgage rates certainly does not raise the underlying demand for housing. Therefore, the 64% annualized gain in single family starts simply is unjustified. With bank examiners tightening their definitions of what constitutes a bad loan, housing should weaken substantially during the spring and summer.

Of course, the surge in permits was caused by a change in regulations concerning handicap access. Most of those permits will be used as the year progresses. Thus, housing should not respond to current permit data until that backlog of unused permits is exhausted.

BUSINESS ACTIVITY-The absence of substantial orders for commercial aircraft and some weakness in metals and machinery orders did not offset gains for telecommunications equipment and autos in February. Some commercial aircraft orders will again be flowing in April and May. However, orders fell below shipments, suggesting the potential of greater caution in capital spending as the year progresses. Offsetting, this sluggishness, however, should be rising orders for computers as new technology becomes available. On balance, durable goods activity should continue to expand slowly during the year.

A rebound in inventory accumulations is expected in the spring and summer. This will add substantially to industrial activity until export growth begins subsiding in the fall. Few industries are facing capacity constraints while capacity expansion in some industries, such as paper, chemicals and plastics, should cause a slight acceleration in the growth of capacity in the latter part of the year. At these capacity levels, industrial inflation should not persist, even though some evidence of acceleration has occurred during the past month.

PRICES-The noteworthy surge in prices following the winter freeze already has been discussed. Less than normal price increases should be observed during the spring before prices return to their underlying patterns in the second half of the year. The price increases for consumer durables was caused by composition shifts during the first quarter. The plunging prices of precious metals may slow that durables deflator in the second quarter by more than currently projected. Of course, the year over year comparisons are misleading here as the drought impact on prices was still important in 1989 while the winter surge should be over after March of 1990. Inflation is not slowing, but neither is it intensifying once the winter price surge is factored out.

MISCELLANEOUS-Of course, the leading indicators are again biased in February because of the plunge of the building permits following the rush to get permits in January prior to the handicap access regulation. However, seven of the eleven indicators for February were down, suggesting that some weakening of economic conditions might develop in the months ahead.

Although the merchandise trade balances deteriorated in January, they were restrained by a surge to 296 million barrels of imported oil at a price in excess of $20. Although our oil imports now are in excess of 9 million per day, or 270 million per month, the January figure was an attempt to rapidly replace depleted inventories. Those inventories are in balance and no further import surge is needed. Further improvement is projected in the trade deficit because the dollar has not been rallying against all currencies. By year-end the adverse dollar effects from the second quarter gains should be offset by growing foreign markets in Europe. Thus, further improvements in trade balances are projected. The deficit for 1990 should be slightly over $105 billion.

After-tax profits rose by 2.8% during the fourth quarter, but these gains were caused by reduced losses at insurance companies and a sharp increase in foreign earnings. Operating profits adjusted for tax liabilities continued to fall sharply. This should not be surprising with nominal GNP growing 4.6% and wages and salaries expanding by 7.0%. Sharp gains in petroleum company earnings and further improvement by insurance companies during the first quarter should finally generate some profit gains. Then weaker construction activity and continuing bank problems again should create declines in the spring. Profits could temporarily spurt during the summer before slower growth again restrains profits by year-end.

FINANCIAL MARKETS

Was the surge in long-term interest rates the result of rising interest rates abroad, a shift in Federal Reserve policy, or a change in domestic credit market conditions? The fact that short-term interest rates continued to fall during the first quarter suggests the Federal Reserve was not a major factor in interest rate movements, except to the extent that they enforced an interest rate target even as conditions were changing at home and abroad. (The fact that commercial paper fell less than federal funds suggests that interest rate pressures were upward, but were slightly restrained by the Federal Reserve.) As, on balance, the dollar fell in value as rates were rising, changing monetary policy abroad could account for some of the domestic rise in rates. However, the currency index is now rising. This suggests that American assets may be increasing in relative value, which could actually lead to falling interest rates at home even if they continue to rise abroad.

Our sector analysis shows a substantial increase in household savings but a large increase in housing investment as well. If the housing activity is projected to the household, this means that little interest rate pressure was generated by household behavior. During the spring, the household savings rate should rise while housing investment should fall. Thus, households should be encouraging lower rates until activity is reversed in the summer. By the fall, however, households again will be providing substantial funds to the credit markets.

A slowing or inventory investment and rising profits may have slightly eased corporate borrowing needs during the winter. A rebound in inventory investment, stronger capital spending and some profit weakness should add to borrowing pressures in the spring. Strong profit growth in the summer should again reduce corporate borrowing needs before cash flow problems again surface in the fall. The result is that corporate flows of funds should offset household flows through the year.

Low tax collections have increased government borrowing early this year. Also, larger losses than expected require more borrowing by Refcorp than expected. Thus, the government supply of bonds has been pushing interest rates upward. One should not be surprised to discover that government securities have performed most poorly in the past few months.

Increased attractiveness for the dollar could lower interest rates in the spring and early summer. However, the dollar then should weaken before the end of the year, as trade deficits remain large and the weakness of other currencies run their courses. Thus, reduced support for American credit markets by foreign investors is expected through the year.

When these forces are summarized, a slight decline in interest rates is possible during the spring, but rates then will again reverse direction during the summer. Rising rates, especially for short-term rates as the Federal Reserve pursues inflation restraint in an era of a falling dollar late this year, should then develop.

EQUITY MARKETS-A market valuation formula has been embedded in our projections beginning this month. According to that formula, the fourth quarter gain in equity values, as meager as it was, was the result of offsetting forces. A falling dollar and declining profits reduced the attractiveness for equities. However, falling interest rates were sufficient to offset those negative factors. If our profits projections hold for the first quarter, the market decline has been orderly. However, a sharp decline is expected in April before moderating interest rates stabilize the market later in the spring. An old-fashioned summer rally then seems likely despite erosion of support by foreign investors.

This same valuation exercise was used on the Japanese stock market with surprising results. Although corporate profits are continuing to grow there, rising wage pressures and the yen's decline upon the cost of raw materials has sharply reduced profit gains. This leads to a smaller price earnings ratio than stronger earnings growth could support. Also, Japanese interest rates have increased sharply while their currency has fallen sharply in value. Assuming long-term government bonds continue to yield 7%, these factors suggest that the Japanese market will fall to the vicinity of 26,000. (These calculations were done about two months ago, before the market collapse, and predicted a fall below 30,000 at that time. The lower current estimate is because the yen has deteriorated further and interest rates have continued to rise.)

Of course, rising interest rates by year-end along with the return of sluggish growth and deteriorating profits should cause a new period of weakness in equity values. Except for an April slump and a summer rally, the stock market should be uninteresting this year.

Of course, some sectors always perform away from the market. Those export oriented industries poised to enter a growing European market should do well. Some regional financial banks that currently are being tarred with the same brush as trouble banks could rebound. Consumer related issues in the southwest could rise as that region recovers. Energy service companies and energy related stocks should shine. Technology stocks should rebound as orders rise in that sector of capital expenditures. Some medical service activities also should do well. Even a modest rebound in the cyclical and transportation issues is possible during the spring, although they will again be weakening late this year. Thus, selection rather than asset allocation will provide the best returns for investors in the 1990 equity markets. Global stocks and gold stocks probably should be shunned until the dollar begins drifting downward later this year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
October	109171		129.2		117585		5.3	9.78	
November	109452	1.8	129.1	0.5	117836	1.0	5.3	9.78	3.8
December	109570		128.8		117888		5.3	9.83	
January 1990	109902		129.4		117863		5.3	9.82	
February	110274	3.1	130.3	3.3	118035	0.9	5.3	9.87	3.0
March	110553 *		130.6 *		118172 *		5.2 *	9.92 *	
April	110712		130.5		118268		5.2	9.94	
May	110678	1.6	130.6	1.4	118262	1.1	5.3	9.98	4.4
June	110693		130.6		118474		5.3	10.01	
July	110884		130.8		118767		5.2	10.05	
August	111073	1.3	131.0	1.2	118902	1.9	5.2	10.09	4.6
September	111227		131.1		118994		5.3	10.13	
October	111416		131.3		119142		5.3	10.16	
November	111568	1.8	131.5	1.5	119194	1.1	5.4	10.20	4.4
December	111712		131.6		119268		5.5	10.24	
January 1991	111905		131.8		119464		5.5	10.28	
February	112089	1.9	131.9	1.4	119615	1.4	5.5	10.32	4.7
March	112277		132.1		119806		5.5	10.35	
Chng Mar(91)/Mar(90)		1.6		1.1		1.4			4.3
Chng Mar(90)/Mar(89)		2.5		2.4		1.0			3.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	4.500		2.693		207.9		3.840		3.632	
November	4.542	7.3	2.695	7.0	228.7	50.3	3.878	6.9	3.650	4.9
December	4.564		2.712		211.5		3.896		3.684	
January 1990	4.595		2.725		206.3		3.928		3.722	
February	4.636	8.8	2.749	7.2	224.7	22.1	3.963	9.4	3.738	8.7
March	4.665 *		2.768 *		250.3 *		3.988 *		3.738 *	
April	4.686		2.780		250.7		4.005		3.757	
May	4.702	6.2	2.787	5.9	239.6	28.1	4.017	6.0	3.777	4.9
June	4.720		2.794		234.5		4.032		3.798	
July	4.747		2.810		236.8		4.055		3.818	
August	4.775	6.2	2.827	5.7	232.3	-8.9	4.079	6.1	3.847	7.1
September	4.801		2.841		239.0		4.101		3.862	
October	4.827		2.856		240.0		4.123		3.883	
November	4.858	7.0	2.873	6.7	248.5	16.3	4.151	7.1	3.903	6.5
December	4.883		2.888		246.8		4.172		3.925	
January 1991	4.910		2.905		254.8		4.201		3.946	
February	4.937	7.1	2.921	6.9	254.3	22.1	4.224	7.8	3.970	6.9
March	4.974		2.935		263.8		4.256		3.992	
Chng Mar(91)/Mar(90)		6.6		6.0		5.4		6.7		6.8
Chng Mar(90)/Mar(89)		7.0		7.3		7.9		6.9		6.9

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CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	3528.1		470.3		1135.0		1922.7		2684.2	
November	3545.0	4.9	467.9	-13	1140.5	3.9	1936.6	10.6	2687.6	0.5
December	3578.7		470.3		1151.6		1956.8		2709.2	
January 1990	3615.9		500.6		1158.0		1957.3		2705.7	
February	3631.8	8.8	486.0	17.8	1168.9	7.6	1976.9	7.4	2705.6	1.4
March	3631.2 *		480.9 *		1163.9 *		1986.3 *		2697.3 *	
April	3650.3		485.3		1167.9		1997.1		2707.3	
May	3669.8	4.9	488.9	-0.8	1172.4	3.3	2008.5	7.3	2714.1	1.6
June	3689.3		490.2		1179.4		2019.7		2718.8	
July	3709.5		493.2		1184.9		2031.4		2725.4	
August	3737.4	7.1	504.6	10.0	1190.2	5.8	2042.5	7.1	2738.6	3.2
September	3752.0		501.9		1194.5		2055.6		2741.2	
October	3772.4		504.6		1199.8		2067.9		2746.0	
November	3791.3	6.5	506.6	6.2	1205.0	5.3	2079.7	7.3	2750.4	2.4
December	3813.4		511.1		1211.4		2090.8		2758.1	
January 1991	3833.8		514.3		1215.9		2103.6		2763.2	
February	3856.7	6.9	519.8	9.9	1221.4	5.3	2115.5	7.1	2770.5	2.7
March	3878.5		524.7		1225.8		2127.9		2775.2	
Chng Mar(91)/Mar(90)		6.8		9.1		5.3		7.1		2.9
Chng Mar(90)/Mar(89)		6.7		4.1		5.4		8.6		2.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	143.43		22.81		8.8		89.45		31.17	
November	144.39	-1.7	22.98	-2.5	8.5	-56.7	90.32	5.2	31.09	-18.8
December	143.90		22.63		8.9		90.95		30.32	
January 1990	147.94		23.17		10.2		91.43		33.34	
February	146.54	8.8	23.47	10.8	9.5	46.0	91.75	6.9	31.32	12.8
March	146.43 *		23.55 *		9.1 *		92.12 *		30.76 *	
April	147.24		23.58		9.3		92.43		31.23	
May	148.00	2.8	23.65	4.4	9.4	-9.4	92.79	4.8	31.56	-4.1
June	148.70		23.72		9.4		93.34		31.64	
July	149.48		23.86		9.5		93.78		31.84	
August	151.19	7.4	24.01	6.2	10.6	35.2	94.20	5.8	32.98	13.0
September	151.22		24.15		10.2		94.54		32.53	
October	151.95		24.26		9.2		94.96		32.73	
November	152.58	5.6	24.23	5.0	9.3	-27.1	95.37	5.3	32.98	7.0
December	153.60		24.41		9.5		95.88		33.31	
January 1991	154.31		24.52		9.6		96.23		33.56	
February	155.37	7.0	24.67	6.2	9.9	24.9	96.67	5.3	34.03	12.7
March	156.28		24.82		10.1		97.02		34.44	
Chng Mar(91)/Mar(90)		6.7		5.4		11.0		5.3		12.0
Chng Mar(90)/Mar(89)		5.0		6.6		-6.2		6.3		-7.5

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	1.423		1.023		0.400		1.356	
November	1.347	3.1	1.010	-2.8	0.337	22.8	1.342	11.3
December	1.273		0.931		0.342		1.376	
January 1990	1.588		1.109		0.479		1.745	
February	1.477	47.2	1.166	64.5	0.311	6.5	1.308	33.0
March	1.388 *		1.082 *		0.306 *		1.322 *	
April	1.334		1.019		0.315		1.276	
May	1.324	-35.9	1.003	-33.5	0.321	-42.6	1.243	-45.2
June	1.327		1.009		0.318		1.245	
July	1.359		1.032		0.327		1.278	
August	1.356	9.1	1.013	2.4	0.343	32.7	1.275	8.0
September	1.358		1.004		0.354		1.284	
October	1.432		1.065		0.367		1.337	
November	1.427	15.0	1.083	18.3	0.344	5.6	1.344	15.6
December	1.359		1.032		0.327		1.298	
January 1991	1.357		1.013		0.344		1.276	
February	1.360	-12.5	1.004	-19.4	0.356	11.2	1.267	-15.1
March	1.362		0.996		0.366		1.276	
Chng Mar(91)/Mar(90)		-1.9		-7.9		19.6		-3.5
Chng Mar(90)/Mar(89)		-4.0		10.5		-28.2		7.5

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	136.7		84.8		193.1		414.6		343.8	
November	136.9	-2.7	88.9	28.0	191.1	-5.4	416.9	1.7	344.8	-0.4
December	131.5		94.9		190.2		416.6		345.2	
January 1990	137.3		90.9		195.8		424.0		351.3	
February	136.2 *	4.1	87.2 *	-4.4	195.3 *	10.3	418.7 *	5.0	346.3 *	4.4
March	135.7		87.5		197.5		420.7		347.4	
April	135.5		87.6		191.9		415.0		341.8	
May	135.9	-1.4	87.9	-2.2	191.1	-9.2	414.9	-5.2	341.2	-7.4
June	136.4		88.6		191.6		416.6		342.0	
July	136.7		89.1		195.4		421.2		345.0	
August	137.2	3.8	89.3	6.4	196.1	10.6	422.6	7.4	345.3	4.5
September	137.7		89.8		197.7		425.2		346.3	
October	137.3		89.1		198.4		424.8		345.1	
November	137.8	1.7	90.5	3.6	197.7	3.1	426.0	2.7	345.2	-0.4
December	138.2		91.0		197.6		426.8		345.0	
January 1991	138.5		91.6		197.6		427.7		344.9	
February	139.4	4.2	92.0	7.1	198.8	1.6	430.2	3.6	346.1	0.7
March	139.7		91.7		199.6		431.0		346.2	
Chng Mar(91)/Mar(90)		2.9		4.8		1.1		2.4		-0.3
Chng Mar(90)/Mar(89)		-0.2		11.2		-2.3		0.9		0.4

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	371.7		124.26		35.98		34.17	
November	372.8	0.9	130.18	13.9	38.90	5.5	34.12	-10.3
December	371.1		131.72		44.39		34.96	
January 1990	374.4		117.88		38.33		35.18	
February	373.9 *	2.7	120.93 *	-25.1	36.03 *	-28.0	36.62 *	21.2
March	374.7		120.45		35.50		36.53	
April	376.2		124.41		38.62		36.59	
May	378.5	4.3	125.56	17.4	39.53	23.7	36.86	8.5
June	380.1		123.97		37.72		37.11	
July	381.8		124.42		37.96		37.28	
August	383.5	5.6	125.37	1.8	38.25	-3.9	37.53	7.5
September	385.0		125.83		38.52		37.76	
October	386.6		126.16		38.73		37.98	
November	388.1	5.0	125.81	3.2	38.56	6.0	38.20	7.8
December	389.8		126.65		39.12		38.53	
January 1991	391.2		126.87		39.43		38.74	
February	392.8	4.8	127.13	2.6	39.76	8.8	39.03	7.9
March	394.1		127.03		39.71		39.15	
Chng Mar(91)/Mar(90)		5.2		5.5		11.9		7.2
Chng Mar(90)/Mar(89)		3.8		-3.9		-6.9		7.2

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	793.2		8.25		141.8		83.1	
November	797.0	5.7	8.75	7.3	142.3	-0.2	83.2	-2.7
December	794.1		9.80		142.4		83.0	
January 1990	796.0		8.50		141.0		82.0	
February	796.8 *	1.3	8.24	-21.0	141.8	-1.4	82.3	-4.1
March	799.5		8.53 *		142.2 *		82.4 *	
April	802.6		8.66		142.4		82.3	
May	806.7	4.7	8.62	11.7	142.7	2.9	82.3	0.2
June	810.4		8.70		142.9		82.2	
July	814.5		8.65		143.3		82.3	
August	817.3	5.5	8.76	8.7	143.7	2.7	82.4	0.3
September	820.6		9.12		143.9		82.3	
October	824.4		8.22		144.2		82.3	
November	828.7	5.4	8.57	-7.0	144.4	2.1	82.2	-0.8
December	831.9		9.26		144.5		82.0	
January 1991	835.4		8.56		144.7		81.9	
February	839.3	5.6	8.44	-6.4	144.8	1.3	81.8	-1.8
March	844.6		8.62		145.0		81.7	
Chng Mar(91)/Mar(90)		5.6		1.1		2.0		-0.8
Chng Mar(90)/Mar(89)		3.8		1.0		1.1		-1.7

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	125.3		114.6		112.4		127.6	
November	125.8	3.9	114.5	4.4	112.2	1.7	128.0	3.2
December	126.2		115.3		112.3		128.2	
January 1990	127.7		117.2		113.6		129.2	
February	128.4	8.3	117.2	9.0	113.1	4.2	129.8	5.6
March	128.8 *		117.5 *		113.7 *		130.1	
April	129.0		117.2		114.0		130.4	
May	129.4	3.6	117.5	0.8	114.4	3.3	130.7	3.3
June	129.9		117.9		114.8		131.2	
July	130.3		118.3		115.3		131.5	
August	130.7	4.0	118.6	3.7	115.0	2.2	131.9	3.6
September	131.1		118.9		114.8		132.3	
October	131.6		119.4		116.0		132.8	
November	132.1	4.5	119.8	4.2	116.4	4.7	133.2	3.9
December	132.7		120.3		116.7		133.6	
January 1991	133.2		120.7		117.1		134.0	
February	133.6	4.7	121.0	4.2	117.3	3.6	134.5	4.0
March	134.2		121.5		117.8		135.0	
Chng Mar(91)/Mar(90)		4.2		3.4		3.6		3.7
Chng Mar(90)/Mar(89)		5.2		4.5		2.9		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	131.4		111.3		123.8		143.0		120.6	
November	131.9	3.9	111.8	1.2	124.2	3.8	143.4	4.5	120.9	2.1
December	132.1		112.0		124.1		143.8		120.7	
January 1990	133.6		112.9		127.0		145.0		120.7	
February	134.2	7.3	112.8	4.4	127.8	12.0	145.3	5.6	120.9 *	0.6
March	134.6 *		113.0 *		128.0 *		145.8 *		121.1	
April	134.8		113.3		127.8		146.3		121.4	
May	135.2	3.3	113.5	2.3	128.1	1.7	146.8	4.1	121.6	2.3
June	135.7		113.8		128.5		147.4		121.8	
July	136.1		114.0		128.9		147.9		122.1	
August	136.5	3.8	114.0	1.5	129.3	3.7	148.5	4.5	122.4	2.8
September	136.9		113.9		129.7		149.0		122.8	
October	137.4		114.3		130.1		149.6		123.1	
November	137.8	4.0	114.5	2.0	130.5	3.8	150.2	4.7	123.4	3.2
December	138.3		114.8		130.9		150.7		123.7	
January 1991	138.7		115.1		131.3		151.3		124.0	
February	139.2	4.1	115.4	3.1	131.7	3.8	151.9	4.8	124.3	2.8
March	139.8		115.7		132.2		152.6		124.5	
Chng Mar(91)/Mar(90)		3.9		2.4		3.3		4.7		2.8
Chng Mar(91)/Mar(90)		4.7		1.6		5.8		4.4		0.5

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MISCELLANEOUS

	Merchandise Trade Balance Proj	Merchandise Trade Balance AR%	Leading Indicators Proj	Leading Indicators AR%	Estimated GNP Proj	Estimated GNP AR%	Estimated GNP (1982 $) Proj	Estimated GNP (1982 $) AR%	IVA (annual rate) Proj
October	-10.44		144.4		5319		4168		-7.3
November	-10.11	-13.4	144.5	0.3	5340	4.6	4171	1.1	-9.5
December	-7.68		145.3		5361		4182		-14.4
January 1990	-9.25		145.3		5405		4183		-18.9
February	-8.48 *	17.7	144.2 *	0.1	5448	7.8	4199	2.1	-22.6
March	-9.16		144.8		5470		4204		-20.4
April	-8.56		145.0		5485		4208		-17.3
May	-8.93	3.8	144.9	0.8	5510	5.2	4216	1.8	-14.6
June	-9.14		145.3		5535		4220		-11.7
July	-8.76		145.4		5564		4230		-9.6
August	-8.81	4.9	145.6	1.6	5594	6.2	4242	2.5	-10.5
September	-8.73		145.9		5621		4249		-12.4
October	-8.67		145.9		5641		4249		-15.6
November	-8.89	7.1	145.6	0.0	5664	5.4	4252	1.4	-15.3
December	-8.26		145.4		5696		4264		-13.7
January 1991	-8.52		145.2		5720		4267		-13.9
February	-8.47	9.3	145.3	-0.9	5749	6.0	4275	1.9	-16.4
March	-8.21		145.4		5781		4283		-18.1
Chng Mar(91)/Mar(90)		10.4		0.4		5.7		1.9	
Chng Mar(90)/Mar(89)		0.6		0.1		6.5		2.1	

	Currency Index Proj	Currency Index AR%	Adjusted Profits Proj	Adjusted Profits AR%	30 - Year Government Bonds Proj	30 - Year Government Bonds AR%	New York Composite Proj	New York Composite AR%
October	98.92		165.3		8.00		192.49	
November	97.99	-10.3	170.4	-8.3	7.90	-13.2	188.50	1.8
December	94.88		171.0		7.90		192.67	
January 1990	93.00		166.7		8.26		187.96	
February	92.25	-16.7	170.4	2.9	8.50	27.9	182.55	-13.0
March	93.47 *		173.2		8.55 *		183.55 *	
April	94.42		165.8		8.54		175.91	
May	94.16	4.0	169.3	-2.1	8.29	-4.8	185.04	-1.3
June	92.86		172.5		8.17		191.31	
July	91.77		175.2		8.21		193.36	
August	91.52	-10.1	177.3	20.7	8.26	-2.8	194.49	24.0
September	90.76		179.6		8.35		194.89	
October	90.24		175.2		8.41		188.76	
November	90.08	-4.0	176.7	-3.6	8.47	9.9	189.03	-12.3
December	90.93		175.3		8.53		186.21	
January 1991	89.86		177.1		8.56		187.46	
February	90.24	-0.6	175.0	-0.4	8.51	2.5	186.33	-2.9
March	90.72		174.6		8.50		186.12	
Chng Mar(91)/Mar(90)		-2.9		0.8		-0.6		1.4
Chng Mar(90)/Mar(89)		-3.6		-0.9		-8.7		11.5

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	292.5		788.1		3181.4		8.84		7.62	
November	293.3	4.0	789.4	5.2	3200.8	7.3	8.55	-19.1	7.49	-9.4
December	293.8		794.8		3221.7		8.45		7.42	
January 1990	295.6		794.7		3232.0		8.23		7.55	
February	298.2	8.1	801.3	4.8	3257.0	6.7	8.24	-16.2	7.70	11.1
March	303.1 *		804.3 *		3271.6 *		8.25 *		7.88 *	
April	304.5		806.8		3285.7		8.23		7.78	
May	305.7	9.4	809.2	4.7	3303.2	6.3	8.15	-4.5	7.75	-0.3
June	307.0		812.0		3321.7		8.06		7.58	
July	308.3		814.8		3335.4		8.01		7.53	
August	309.6	5.1	818.2	4.3	3351.8	6.0	8.04	-5.4	7.55	-6.9
September	310.8		820.9		3368.5		8.05		7.62	
October	312.1		823.6		3383.4		8.11		7.75	
November	313.6	5.3	827.0	4.5	3400.4	5.8	8.27	14.1	7.83	16.8
December	315.1		830.3		3415.6		8.53		8.02	
January 1991	316.7		833.9		3432.3		8.82		8.16	
February	318.3	6.2	836.8	5.1	3448.9	5.8	8.96	34.0	8.24	20.2
March	320.0		841.0		3463.7		9.02		8.31	
Chng Mar(91)/Mar(90)		5.6		4.6		5.9		9.3		5.5
Chng Mar(90)/Mar(89)		4.7		2.4		6.0		-16.2		-11.0

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	8.92		7.22		8.53		8.60		10.50	
November	8.89	-3.5	7.14	1.1	8.35	-11.5	8.39	-12.6	10.50	-5.9
December	8.86		6.98		8.29		8.32		10.50	
January 1990	8.99		7.10		8.20		8.10		10.11	
February	9.22	14.5	7.22	6.3	8.14	-7.9	8.22	-9.0	10.00	-16.5
March	9.38 *		7.35 *		8.32 *		8.40 *		10.00 *	
April	9.39		7.36		8.30		8.38		10.00	
May	9.25	3.1	7.27	3.2	8.21	-0.5	8.29	2.6	10.00	-1.5
June	9.16		7.21		8.12		8.21		10.00	
July	9.21		7.24		8.06		8.15		10.00	
August	9.25	-0.1	7.30	0.9	8.05	-6.5	8.13	-5.8	10.00	0.0
September	9.33		7.35		8.11		8.23		10.00	
October	9.44		7.43		8.16		8.27		10.00	
November	9.49	9.8	7.48	10.0	8.24	11.2	8.35	11.4	10.00	0.0
December	9.52		7.51		8.47		8.56		10.00	
January 1991	9.61		7.59		8.73		8.82		10.33	
February	9.60	4.7	7.57	5.3	8.91	31.5	8.99	30.1	10.50	20.3
March	9.57		7.55		8.99		9.08		10.59	
Chng Mar(91)/Mar(90)		2.0		2.7		8.1		8.1		5.9
Chng Mar(90)/Mar(89)		-4.3		-3.2		-16.4		-16.7		-13.0

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AR% is the annualized percentage change from the previous quarter.

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
April 1990

Dr. Donald Ratajczak, Director
For Release: Thursday, May 5, 1990

INVENTORY LIQUIDATIONS HIDE STRENGTH OF WINTER ECONOMY

Our current estimates of business inventories for the first quarter show a nominal increase of only 0.5%, down from a gain of 5.7% during the fourth quarter. Moreover, even with a rebound in production to restore depleted inventories during the second quarter, inventories should show little accumulation until the summer months. This rate of business inventory accumulation was nearly a full percentage point less than anticipated a month ago.

Of course, prices rose sharply during the winter. Therefore, inventories actually declined after adjustment for inflation. However, this weakness in inventory investment was offset by substantial gains in final demand. The trade deficit fell by an annualized 53%, although sales of planes accounted for much of the export improvement while the inventory liquidation clearly was a restraining factor upon imports as well. Also, consumer spending was stronger than anticipated, with auto sales rebounding more than expected, while higher prices had a smaller restraining influence upon purchases of consumer nondurables than anticipated. Purchases of services also were stronger than expected, as air travel and lodging performed better than projected earlier this year.

Construction expenditures also were more robust than expected. Unusually mild weather allowed substantial increases in expenditures for all construction sectors. More appropriate weather should reduce the surge in construction during the spring, where the contribution of structures to GNP could be more than a $7 billion reduction as compared to a $7 billion addition during the winter. Even with the mild winter, housing starts increased less than expected and housing permits showed smaller increases than were generated by the handicap access requirements that caused permits to surge prior to the January 13 compliance date.

Despite stronger gains in trade, construction, and consumption than expected, the greater liquidation of inventories led to GNP gains that were precisely what was expected a month ago. Even the deflators were appropriately projected. Of course, if the **PROJECTIONS** contained estimates of final sales, our estimates would have been extremely deficient. Final sales actually advanced by a strong 4% for the quarter.

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Because inventories no longer are adequate to meet current activity, production should improve in order to provide for those stocks of inventories. Thus, **industrial production** is expected to advance a strong 5% during the spring and continue to grow sharply in the summer. Some slowing of activity then is expected by next fall.

Even with inventory restocking, however, activity should slow from winter rates during the spring. Consumers have exhausted some of their purchasing power as a result of the strong gains in prices. Although disposable income rose a surprisingly large 9.6%, a substantial portion of this gain was in farm incomes. Wages and salaries actually increased at a slightly slower pace than during the fall. Thus, the estimate of only a 1% drop in savings masks greater purchasing power constraints by most households. When prices for consumer nondurable goods slow sharply in the spring, consumers will use the increased purchasing power to replenish savings.

Also, now that Boeing is producing at maximum levels, no further contributions to economic activity should be generated by plane production. As a result, shipments of capital goods should slow sharply from the winter quarter. However, strong gains in durable goods orders excluding aircraft suggest that strong growth in capital spending should be expected, even if not at the rate of the first quarter, for the remainder of the year.

Although the first quarter inflation rate was anticipated in our previous **PROJECTIONS**, several components of that inflation are troubling. Most of the weather related price changes are in nondurables, but inflation intensified for durables and services as well. At the same time, the unusually modest increases in construction costs belies substantial price increases for construction materials in the past few months. Lumber prices have increased especially strongly as a result of reduced west coast production to protect the habitat of the spotted owl. Some of the moderation in commodity prices already has surfaced at the producers' level, although prices remained surprisingly strong for consumer goods. Thus, inflation should moderate in the next few months. However, inflation excluding the volatile food and energy sectors appears to be drifting upward.

Our estimates of corporate profits adjusted for tax and price distortions was too small for the first quarter. Because inventory prices did not surge as much as expected, adjusted profits rose more than expected. However, this strong gain in profits was offset by rising interest rates and a dollar that fell against European currencies by more than it rose against Japan. As a result, equity values weakened, although the profit rebound prevented the market from declining as much as expected during April. Because the economy is stronger than expected excluding the inventories, higher interest rates are expected than projected only a month ago. Some weakness in rates still is expected following the Treasury's quarterly funding, but rates will average substantially higher than originally anticipated. Also, wages should intensify even as sales grow more slowly. While profits should increase slightly during the spring, the gains will not be sufficient to offset weakness in the bond market. Any strength expected for the dollar should be too small to offset these interest rate effects. Therefore, the equity markets are not expected to show much recovery potential for the remainder of this year. (A modest summer rally still is possible, which could raise stock prices to their January highs, but this would constitute a good opportunity to sell.)

With economic activity growing faster than expected, inventory shortfalls which suggest that no recession is possible until those shortfalls are removed, and with inflation showing greater resilience than expected, a movement toward more substantial Federal Reserve restraint normally would be expected. However, the yen's weakness and the resulting weakness in the financial markets in Japan has discouraged our bank from adding to their problems through higher rates. Also, the current upward sloping yield curve aids the thrifts, who have been suffering from negative interest rate spread on their portfolios. Finally, the elections this November will influence the reapportionment process for the next decade. The White House undoubtedly wants as many Republican statehouses as possible. Rising short-term interest rates may be more damaging than upward drift in long-term rates as the Fed delays response to the current inflation risk. Thus, short-term rates are expected to remain low until election time, while long-term rates should continue to drift upward because of the absence of any vigorous anti-inflation activity.

Monthly Statistical Highlights

	APRIL 1990	MAY 1990	JUNE 1990
Payroll Employment	+276,000	+136,000	+161,000
Index of Hours Worked	+0.2%	+0.1%	+0.2%
Household Employment	+142,000	+97,000	+150,000
Civilian Unemployment Rate	5.2%	5.3%	5.3%
Personal Income	+0.4%	+0.6%	+0.3%
Savings Rate	5.7%	6.0%	5.7%
Personal Consumption	+0.4%	+0.4%	+0.5%
Retail Sales	+0.3%	+0.2%	+0.3%
Auto Sales	9.7*	9.6*	9.6*
Housing Starts	-0.8%	0.0%	+0.2%
Housing Permits	+0.7%	+0.5%	-0.3%
Construction Expenditures	-0.9%	-1.1%	+0.3%
Business Inventories	+0.2%	+0.3%	+0.2%
Orders for Durable Goods	-2.5%	+0.1%	+2.7%
Orders - Nondefense Capital Goods	-4.2%	-1.7%	+4.0%
Industrial Production	+0.3%	+0.3%	+0.2%
CPI	+0.4%	+0.2%	+0.3%
PPI	-0.3%	0.0%	+0.1%
Consumption Deflator	+0.5%	+0.1%	+0.2%
Leading Indicators	-0.1%	-0.2%	0.0%
Currency Index	+0.1%	-0.8%	-1.1%
Equity Index	+0.4%	-2.3%	+2.9%
Real GNP (annual rate)	+2.0%	+1.4%	+2.0%
M1 (annual rate)	+5.2%	+5.0%	+4.4%
M2 (annual rate)	+3.4%	+6.2%	+8.9%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Despite an 86,000 gain in government workers because of the Census, employment grew only 26,000. Some of the weakness was the reverse of strong employment gains in construction during the mild winter. However, weakness was also widespread in manufacturing. The diffusion index recorded only slightly more than 51%. However, except for retail sales and construction, no other monthly statistics confirmed the weakness in economic activity. Indeed, household employment, which had been growing only half as rapid as payroll employment during the past year, rose nearly 300,000. This suggests that some problems developed with the seasonal adjustment factors or with the payroll survey during the month. As a result, a substantial rebound in employment is possible this month. Census again will be adding to the gains, but strength should be widespread.

Earnings have begun to spurt following several months of little change. Although hourly earnings rose more slowly this quarter than last, gains during the past three months were 3.7%, as compared to the 3.3% quarterly average. Low unemployment rates and the increased minimum wage should be adding to earnings in the next few months. However, the high gains in compensation that developed in the first quarter because of social security tax rate increases and higher health insurance premiums should be less substantial during the next few months. Unit labor costs unquestionably showed another sharp increase in the winter, as the index of hours worked grew faster than economic activity even as compensation was accelerating. If inflation had not intensified, profits again would have been pinched.

PERSONAL INCOME AND OUTLAYS-Strong gains in farm income led to stronger increases in personal income that expected or suggested by wage earnings alone. However, farmers notoriously save such income gains (they actually pay down debt, which is a form of savings), suggesting that nonfarmers were pinched for purchasing power during the inflation plagued winter months. Indexation of the tax codes led to slower growth in personal income than in disposable income during the quarter. Transfer payments remained unusually soft while social security taxes were stronger than in some other months. These factors actually led to smaller gains in personal income than otherwise would have developed. However, the surge in farm income cannot be sustained. Therefore, some slowing in the growth of personal income is expected during the spring.

Auto sales responded a little more vigorously to incentives than expected. However, retail gains in auto sales were smaller than suggested by the surge in units. This suggests that some of the lost fleet sales during the fourth quarter returned during the winter. Sales of nondurable goods also were revised upward sharply. The service sector also showed greater expenditures than expected, as prices of housing services grew faster than expected. As the auto incentives wear off, sales should soften. However, falling prices for nondurables should lead to stronger real sales there. In general, consumer spending after adjustment for inflation should increase slightly less than a year ago.

CONSTRUCTION-Although construction's strength was widespread, weather undoubtedly led to stronger gains than would have developed. Activity should slow substantially during the spring. Housing already is slowing significantly, and rising mortgage rates should do little to deter the further downward drift in housing activity. Conditions are especially troublesome for multi-family units, where even the winter was not able to generate additional starts. Credit constraints at lending institutions could prevent even the modest gains that are projected for apartment units during the second half of this year. Construction probably already has peaked for the year. The only area showing substantial strength is industrial activity, which could lead to stronger gains in nonresidential construction than currently are being projected.

Because of rising mortgage rates, real construction now is expected to decline 2.4% during the next twelve months. A month ago, a decline of only 0.3% was projected. Even the surprising strength in public construction should subside. Some of that gain continues to reflect expenditures after national catastrophes. With the tight budgets facing most governmental units, substantial slowing in public outlays should develop.

BUSINESS ACTIVITY-Most of the surprises have occurred in the business sector during the winter. Inventory liquidation has been more substantial than expected. Manufacturing inventories relative to sales have fallen from 1.57 to 1.50 during the past year. Business inventories have been liquidated even more aggressively. Auto inventories have been brought down to normal, with production trailing sales until March. Wholesalers also have trimmed their inventories slightly. Now sales are rebounding, leading to strength in the goods producing sectors until inventories again are brought into balance with sales.

Of course, the rebound in shipments of capital goods largely reflects increased activity by Boeing following their strike. Shipments clearly will grow more slowly in subsequent quarters. Because aircraft backlogs were unusually long with uncertain deliveries, orders stalled during the winter. However, the return to production and a shortening of the backlog have again spawned aircraft needs that will be reflected in stronger orders during the next few quarters. However, orders have been strengthening for metals. In addition, capital spending intentions were revised upward from 4.6% to 7.3% after adjustment for inflation. Most of the upward revision was in purchases by service organizations and probably reflects computing and communications equipment. These orders have not yet developed, but they should surface in the next few months. Therefore, strength in capital goods spending is expected through the remainder of this year.

Although capacity is not a problem, the surge in industrial activity following the January shut-down of the auto industry may encourage some producers to raise prices. Some increases in sensitive prices already have surfaced. Thus, the rate at which capacity is being utilized continues to be as important as the level of utilization in determining whether price pressures will surface.

PRICES-Although prices were not surprising during the past month, they are surprisingly high in the areas not effected by the weather. Commodity prices are reversing direction, although the OPEC nations may shore up prices momentarily with production cutbacks. The oil market has so much inventory, however, that no attempt to raise prices will be successful until late this year. Food prices also are coming down. A little later this year, meat prices also should stabilize, as the animals currently being raised are brought to slaughter. Whether the service and durable goods inflation can moderate as currently projected will determine whether inflation can be contained in the 4.5% range this year. Mostly because of higher service inflation, our estimates of the CPI change for the next twelve months have been raised by 0.5 percentage points in the past month alone. No further increases are anticipated, but further service inflation gains certainly cannot be ruled out.

Given the reversal of commodity prices, the GNP deflator should grow more slowly during the remainder of this year. However, sharp gains in some construction materials could result in greater price gains for the construction products than currently projected. Thus, further upward revisions in the GNP deflator cannot be ruled out.

MISCELLANEOUS-Apparently, the surge in oil prices had a smaller impact upon the IVA than expected. Of course, the surge in sensitive prices could lead to stronger gains in inventory prices in the months ahead. In the meantime, the slower inflationary pressures on inventories than expected led to greater gains in adjusted profits than expected. Although first quarter information is not yet complete, profits appear to have increased sharply. Further modest increases are likely during the spring. However, further attempts to pass along price gains should be thwarted later this year, leading to a renewed profits erosion.

The leading indicators continue to be sluggish. Some of the softness during the winter was in building permits and stock prices. However, permits were probably stabilizing in March. Some of the inflation related components of the indicators began to deteriorate during the winter, with delivery delays and sensitive prices joining orders in adding to strong gains in the indicators for March.

The trade balances were aided by the return of aircraft shipments and the downward adjustment of oil inventories following a mild winter. Falling oil prices also were beneficial. In February, oil imports fell by $1.2 billion. Oil prices could fall further in March. Also, inventory liquidations could lead to smaller gains in imports than currently projected. However, later in the spring the trade balances should again deteriorate. This, and some anticipated weakness in interest rates, could lead to renewed weakness in the dollar following its recent surge.

A falling dollar and eroding profits create some problems for equity values later this year. If interest rates can fall, some stability in equity values still is possible. However, any easing of interest rates is expected to be temporary. Therefore, a slight downward drift is expected in equity values during the latter part of this year.

FINANCIAL MARKETS

One of the major disappointments has been the substantial supply of government securities that has been issued to the public. Not only has Refcorp bonds created problems, but the quarterly fundings have been unusually large for the amount of government debt that was supposed to be issued. Some of this surprise is caused by the magnitude of the borrowing required to resolve the thrift problems. These borrowing will remain high all year. Another problem has been the underestimation of corporate receipts. Some of this is caused by a flawed estimation procedure. However, part also indicates reduced taxable corporate earnings from restructuring following the corporate tax increases in the 1986 tax reform act. With expenditures exceeding estimates, revenues should improve as the year progresses. As a result, the government probably is exerting its maximum pressure upon credit markets at the current time. Yet, even this exertion was not supposed to happen. After rising nearly $12 billion to $156.5 billion during the fourth quarter, the deficit on an NIA basis should increase to nearly $164 billion during the first quarter.

Strong construction conditions led to greater production of housing during the first quarter than expected while household savings remained flat. Thus, the household sector also exerted upward pressures upon credit market conditions early this year. Savings should improve while housing production should weaken, leading to some moderation of credit conditions from the household sector. Little change is expected from the households during the summer but their net additions of savings should moderate interest rate pressures during the fall.

The corporate sector was liquidating inventories and raising profits, which normally should lead to lower interest rates. However, they were also on a capital goods spending binge. Thus, the corporate sector was only able to cancel out the government sector during the winter. In the spring, rising inventory investment and continued capital spending should create further problems. Some relief might be forthcoming during the summer, but the corporate sector probably will continue to be adding to their net use of funds during the year.

Excluding foreign investors, this suggests that interest rates should continue to rise in the spring, stabilize in the summer and drift slightly further upward in the fall. With the dollar reaching a peak against foreign currencies in the eyes of international investors, they will be reluctant to invest in U.S. assets. Also, the collapse of Japanese financial values has raised the importance of American assets in their portfolios. As a result, they may wish to liquidate some of their holdings. This suggests that some weakness will be generated by foreign capital flows through much of this year. As a result, interest rates may pause during the summer, but then should resume an upward path during the fall.

However, Federal Reserve reluctance to raise short-term interest rates because of political concerns should lead to a more strongly sloped yield curve, at least until short-term rates are increased late in the fall.

EQUITY MARKETS-The key determinants of equity values continue to be the purchases of foreign investors, the profitability of American corporations, and the long-term interest rates, which determine the value of future earnings. In the first quarter, the dollar fell significantly, suggesting a loss of confidence in American assets by foreign, basically European, investors. Although profits rose strongly, so did interest rates. Thus, a decline in equity values was not surprising. In the spring, the dollar may rebound slightly, adding to international investments. Profits may also continue to improve modestly, but interest rates are continuing to climb. Thus, the summer hiatus in rate rises allows the first opportunity for a significant advance in equity values. Unfortunately, profits should be under some stress while the dollar may also be weakening. Therefore, any gains should be relatively modest. A fall slide in equity values is an increasing possibility.

Despite this slight downward drift in equity values, the capital expenditures surveys suggest that technology and communications companies should do relatively well. Obviously, financial and interest sensitive investments should be avoided, although some rebound in regional banks is likely once the regulators leave the premises. A short-term rebound in cyclical stocks also is likely as inventory rebuilding commences. Some of the metals should do well, while the energy sector should be avoided until late in the year. In short, the markets remain selective, but no serious erosion of prices is anticipated.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
October	109171		129.2		117585		5.3	9.78	
November	109452	1.8	129.1	0.5	117836	1.0	5.3	9.78	3.8
December	109570		128.8		117888		5.3	9.83	
January 1990	109931		129.5		117863		5.3	9.83	
February	110287	2.9	130.1	2.7	118035	1.0	5.3	9.88	3.3
March	110313		130.1		118334		5.2	9.92	
April	110489 *		130.3 *		118476 *		5.2	9.95 *	
May	110625	1.7	130.4	1.7	118573	1.8	5.3	9.99	4.5
June	110786		130.6		118723		5.3	10.02	
July	110916		130.8		118854		5.2	10.05	
August	111073	1.6	130.9	1.5	118942	1.3	5.2	10.09	4.2
September	111234		131.1		119108		5.3	10.13	
October	111354		131.2		119225		5.3	10.16	
November	111496	1.5	131.3	1.1	119339	1.3	5.4	10.20	4.4
December	111643		131.4		119477		5.5	10.24	
January 1991	111802		131.6		119624		5.5	10.28	
February	111957	1.6	131.8	1.3	119761	1.4	5.5	10.32	4.7
March	112095		131.8		119889		5.5	10.35	
Chng Mar(91)/Mar(90)		1.6		1.3		1.3			4.3
Chng Mar(90)/Mar(89)		2.2		2.2		1.1			3.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	4.500		2.693		207.9		3.840		3.632	
November	4.542	7.3	2.695	7.0	228.7	50.3	3.878	6.9	3.650	4.9
December	4.564		2.712		211.5		3.896		3.684	
January 1990	4.600		2.725		205.0		3.931		3.726	
February	4.634	9.1	2.747	6.7	211.8	-1.0	3.960	9.6	3.748	10.2
March	4.670		2.761		229.7		3.992		3.762	
April	4.689 *		2.771 *		230.3 *		4.007 *		3.777 *	
May	4.717	6.9	2.790	6.6	240.6	38.3	4.030	6.7	3.789	5.1
June	4.731		2.805		230.2		4.040		3.810	
July	4.752		2.819		232.1		4.055		3.823	
August	4.774	5.6	2.834	6.8	232.6	-2.8	4.076	5.2	3.852	6.0
September	4.804		2.851		231.5		4.099		3.868	
October	4.827		2.864		235.1		4.118		3.883	
November	4.854	6.6	2.878	6.3	234.2	6.4	4.140	6.4	3.906	6.1
December	4.881		2.893		237.8		4.163		3.925	
January 1991	4.905		2.910		251.8		4.191		3.945	
February	4.934	6.5	2.928	6.7	249.8	21.7	4.216	7.2	3.966	6.6
March	4.955		2.938		241.1		4.232		3.991	
Chng Mar(91)/Mar(90)		6.1		6.4		5.0		6.0		6.1
Chng Mar(90)/Mar(89)		7.1		7.1		-0.9		7.1		7.6

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CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	3528.1		470.3		1135.0		1922.7		2683.9	
November	3545.0	4.9	467.9	-13.0	1140.5	3.9	1936.6	10.6	2687.3	0.5
December	3578.7		470.3		1151.6		1956.8		2708.7	
January 1990	3620.4		505.1		1156.5		1958.7		2709.4	
February	3641.7	10.4	490.1	21.4	1173.3	8.9	1978.3	8.7	2713.8	2.5
March	3655.5		483.3		1170.8		2001.4		2707.6	
April	3671.4 *		488.9 *		1171.3 *		2011.2 *		2713.8 *	
May	3684.8	5.3	492.5	-1.0	1169.8	1.7	2022.5	9.0	2719.0	1.4
June	3702.2		493.5		1174.3		2034.5		2725.5	
July	3716.0		493.2		1175.8		2047.1		2726.4	
August	3744.2	5.9	504.5	7.2	1179.4	2.4	2060.3	7.6	2739.4	2.2
September	3756.8		502.9		1181.2		2072.7		2736.8	
October	3772.0		501.0		1185.1		2085.9		2738.5	
November	3794.4	6.0	504.8	3.8	1190.3	3.9	2099.3	7.8	2745.8	1.6
December	3815.2		509.0		1194.6		2111.6		2751.5	
January 1991	3834.5		512.9		1197.4		2124.2		2755.8	
February	3853.8	6.6	514.1	8.4	1202.9	4.4	2136.8	7.5	2759.2	2.2
March	3877.8		518.7		1208.7		2150.4		2766.3	
Chng Mar(91)/Mar(90)		6.1		7.3		3.2		7.4		2.2
Chng Mar(90)/Mar(89)		7.7		4.7		6.2		9.4		2.6

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	143.43		22.81		8.8		89.45		31.17	
November	144.39	-1.7	22.98	-2.5	8.5	-56.7	90.32	5.2	31.09	-18.8
December	143.90		22.63		8.9		90.95		30.32	
January 1990	149.87		22.94		10.2		93.66		33.27	
February	149.46	15.8	23.61	10.6	9.5	54.3	94.74	18.9	31.11	11.2
March	148.56		23.61		9.5		94.27		30.68	
April	149.04 *		23.58 *		9.7 *		94.23 *		31.23 *	
May	149.32	0.2	23.65	4.3	9.6	-4.0	94.11	0.2	31.56	-2.6
June	149.79		23.68		9.6		94.47		31.64	
July	149.88		23.74		9.5		94.59		31.55	
August	151.44	4.2	23.79	2.7	10.6	20.8	94.88	2.4	32.77	10.7
September	151.41		23.85		10.2		95.03		32.53	
October	151.51		23.96		9.6		95.34		32.21	
November	152.35	3.9	24.03	4.4	9.7	-13.7	95.76	3.9	32.56	3.4
December	153.17		24.17		9.9		96.11		32.89	
January 1991	153.83		24.26		10.0		96.33		33.24	
February	154.41	5.9	24.33	4.7	10.0	14.4	96.77	4.4	33.31	11.3
March	155.39		24.40		10.2		97.24		33.75	
Chng Mar(91)/Mar(90)		4.6		3.3		7.4		3.2		10.0
Chng Mar(90)/Mar(89)		6.5		6.8		-2.1		8.8		-0.3

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	1.423		1.023		0.400		1.356	
November	1.347	3.1	1.010	-2.8	0.337	22.8	1.342	11.3
December	1.273		0.931		0.342		1.376	
January 1990	1.568		1.099		0.469		1.745	
February	1.457	33.5	1.154	47.8	0.303	-0.4	1.305	19.1
March	1.321		1.015		0.306		1.206	
April	1.310 *		1.010 *		0.300 *		1.215 *	
May	1.310	-32.9	1.005	-27.5	0.305	-47.6	1.221	-45.7
June	1.313		1.001		0.312		1.217	
July	1.332		1.011		0.321		1.226	
August	1.350	6.1	1.025	2.1	0.325	20.1	1.245	3.7
September	1.310		0.996		0.314		1.215	
October	1.321		0.993		0.328		1.228	
November	1.358	4.8	1.022	2.1	0.336	13.6	1.253	6.8
December	1.360		1.033		0.327		1.266	
January 1991	1.357		1.013		0.344		1.267	
February	1.347	1.4	1.005	-3.8	0.342	18.5	1.258	4.3
March	1.349		1.001		0.348		1.262	
Chng Mar(91)/Mar(90)		2.1		-1.4		13.7		4.6
Chng Mar(90)/Mar(89)		-6.0		3.7		-28.2		-2.0

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	136.7		84.8		193.1		414.6		344.6	
November	137.5	-2.7	88.7	28.0	190.3	-5.4	416.5	1.7	345.6	-0.4
December	131.9		93.8		189.5		415.2		345.4	
January 1990	137.5		90.8		196.7		425.0		353.6	
February	143.5	13.9	95.3	15.0	199.7	20.0	438.5	16.9	363.0	16.1
March	138.5		90.7		203.2		432.4		358.5	
April	138.1 *		90.8 *		199.7 *		428.6 *		354.5 *	
May	137.6	-5.9	90.5	-6.1	195.8	-5.0	423.9	-5.5	349.8	-7.6
June	137.5		91.2		196.5		425.2		350.0	
July	137.8		91.6		196.9		426.3		350.0	
August	138.4	0.8	90.9	3.4	198.3	1.4	427.6	1.6	350.2	-1.4
September	137.8		92.3		198.8		428.9		350.4	
October	138.6		90.8		199.7		429.1		349.4	
November	138.9	2.7	91.5	-0.1	199.9	4.2	430.3	2.8	349.8	-0.5
December	139.3		92.4		200.5		432.2		350.0	
January 1991	139.1		92.9		200.2		432.2		349.1	
February	139.5	2.0	93.5	8.1	200.8	1.7	433.8	3.1	349.6	-0.2
March	140.3		93.7		201.6		435.6		350.2	
Chng Mar(91)/Mar(90)		1.3		3.3		-0.8		0.7		-2.3
Chng Mar(90)/Mar(89)		1.8		15.2		0.5		3.7		3.5

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	371.7		124.26		35.98		34.17	
November	372.8	0.9	130.18	13.9	38.90	5.5	34.12	-10.3
December	371.1		131.72		44.39		34.96	
January 1990	374.1		117.91		38.35		35.19	
February	373.2	1.3	120.78	-18.1	36.09	-11.4	36.83	20.3
March	371.9 *		128.70		41.29		36.11	
April	372.3		125.47 *		39.55 *		36.47 *	
May	374.2	1.0	125.56	14.4	38.89	11.4	36.73	7.5
June	375.6		128.92		40.46		36.91	
July	376.8		128.45		39.54		37.23	
August	378.2	4.5	127.73	4.7	38.63	-5.9	37.20	6.9
September	379.6		128.16		38.95		37.54	
October	381.0		129.82		39.46		37.79	
November	382.5	4.6	130.43	7.6	39.82	8.0	37.93	7.0
December	383.8		131.15		40.11		38.15	
January 1991	385.3		131.44		40.15		38.35	
February	386.8	4.8	130.56	0.6	39.85	0.4	38.57	6.7
March	388.6		129.97		39.52		38.82	
Chng Mar(91)/Mar(90)		4.5		1.0		-4.3		7.5
Chng Mar(90)/Mar(89)		3.0		2.7		8.3		6.0

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	793.2		8.25		107.7		83.4	
November	797.0	5.7	8.75	7.3	108.1	-0.2	83.5	-2.7
December	794.1		9.80		108.6		83.7	
January 1990	797.5		8.49		107.2		82.4	
February	794.6	0.5	8.16	-23.1	108.1	-0.4	82.9	-3.2
March	794.9 *		8.45		108.8		83.3	
April	796.3		8.55 *		109.1 *		83.4 *	
May	798.5	1.4	8.41	4.9	109.4	5.0	83.5	2.8
June	800.4		8.44		109.6		83.4	
July	802.7		8.59		109.9		83.5	
August	805.3	3.7	8.42	8.8	110.4	3.6	83.8	1.3
September	808.9		8.93		110.7		83.8	
October	811.4		8.28		110.5		83.4	
November	814.8	4.7	8.44	-2.0	110.5	1.0	83.2	-2.1
December	818.5		9.09		110.8		83.2	
January 1991	822.4		8.43		110.8		83.0	
February	826.3	5.8	8.40	-6.8	111.0	1.6	83.0	-1.1
March	830.5		8.53		111.3		83.1	
Chng Mar(91)/Mar(90)		4.5		0.9		2.3		-0.2
Chng Mar(90)/Mar(89)		3.8		0.0		1.6		-0.8

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	125.3		114.7		112.4		127.6	
November	125.8	3.9	114.8	4.4	112.1	1.7	128.0	3.2
December	126.2		115.5		112.3		128.2	
January 1990	127.7		117.6		114.2		129.1	
February	128.4	8.5	117.3	8.2	113.6	5.1	129.6	5.6
March	129.0		117.0		113.2		130.3	
April	129.5 *		116.6 *		112.9 *		130.6	
May	129.8	4.6	116.6	-2.1	113.0	-2.1	130.9	3.8
June	130.2		116.8		113.3		131.2	
July	130.6		117.0		113.6		131.6	
August	131.1	4.1	117.3	2.3	114.0	1.8	132.0	3.6
September	131.7		117.7		113.1		132.5	
October	132.3		118.1		114.4		133.0	
November	132.8	5.2	118.5	4.0	114.9	4.7	133.4	4.2
December	133.3		118.9		115.3		133.9	
January 1991	133.8		119.3		115.7		134.3	
February	134.4	4.9	119.7	4.1	116.2	4.6	134.8	4.2
March	135.0		120.1		116.6		135.3	
Chng Mar(91)/Mar(90)		4.7		2.6		3.0		3.8
Chng Mar(90)/Mar(89)		5.2		4.5		2.4		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	131.4		111.3		123.8		143.0		120.3	
November	131.9	3.9	111.8	1.2	124.2	3.8	143.4	4.5	120.5	2.1
December	132.1		112.0		124.1		143.8		120.2	
January 1990	133.6		113.0		127.0		144.9		120.2	
February	134.2	7.3	112.7	3.8	127.9	13.1	145.3	5.9	120.8	0.7
March	134.6		112.5		128.8		146.2		120.6	
April	135.3 *		112.8 *		128.8 *		146.7 *		120.9 *	
May	135.5	4.3	113.1	1.3	128.6	2.3	147.2	4.9	121.2	2.2
June	135.8		113.4		128.5		147.8		121.5	
July	136.3		113.6		128.8		148.4		121.8	
August	136.7	3.6	113.5	1.9	129.3	2.2	149.0	4.9	122.1	3.0
September	137.3		113.8		129.9		149.6		122.4	
October	137.7		114.0		130.2		150.2		122.8	
November	138.2	4.3	114.3	2.4	130.5	3.8	150.8	4.9	123.0	3.3
December	138.7		114.6		130.9		151.4		123.5	
January 1991	139.1		114.9		131.3		152.0		123.8	
February	139.7	4.3	115.2	3.2	131.8	3.9	152.6	4.9	124.1	3.3
March	140.2		115.5		132.3		153.2		124.4	
Chng Mar(91)/Mar(90)		4.1		2.7		2.7		4.8		3.2
Chng Mar(91)/Mar(90)		4.7		1.6		6.5		4.8		0.2

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
October	-10.44		144.4		5319		4168		-7.3
November	-10.11	-13.4	144.6	0.3	5340	4.6	4171	1.1	-9.5
December	-7.68		145.1		5361		4183		-14.4
January 1990	-9.32		145.3		5400		4182		-15.7
February	-6.49	52.8	143.9 *	0.3	5442	7.8	4198	2.1	-13.2
March	-7.59		145.2		5483		4206		-12.5
April	-8.43		145.0		5505		4213		-9.6
May	-8.89	-55.5	144.7	-0.0	5522	6.2	4218	2.2	-7.8
June	-8.81		144.7		5545		4225		-8.6
July	-8.56		145.0		5572		4232		-10.4
August	-8.74	4.2	145.2	1.2	5601	5.8	4242	2.1	-13.3
September	-8.55		145.5		5634		4249		-10.5
October	-8.46		145.7		5653		4249		-10.6
November	-8.67	2.1	145.3	0.4	5677	5.6	4254	1.4	-12.4
December	-8.58		145.1		5709		4263		-12.9
January 1991	-8.11		144.8		5735		4268		-11.7
February	-7.92	25.6	145.1	-1.1	5761	6.0	4272	1.8	-13.5
March	-7.85		145.0		5795		4282		-14.8
Chng Mar(91)/Mar(90)		-3.4		-0.1		5.7		1.8	
Chng Mar(90)/Mar(89)		17.5		0.3		6.4		2.2	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	98.92		165.3		8.00		192.49	
November	97.99	-10.3	170.4	-8.3	7.90	-13.2	188.50	1.8
December	94.88		171.0		7.90		192.67	
January 1990	93.00		170.8		8.26		187.96	
February	92.25	-16.0	178.3	18.5	8.50	28.1	182.55	-13.0
March	94.11		179.6		8.56		183.55	
April	93.53 *		179.3		8.83 *		184.23 *	
May	93.67	1.1	177.8	3.8	8.96	18.7	180.04	-3.2
June	92.91		176.5		8.64		185.34	
July	91.88		177.5		8.61		187.04	
August	92.11	-7.2	177.1	-1.6	8.73	-3.7	184.05	2.2
September	90.96		176.9		8.84		181.56	
October	91.27		175.6		8.99		177.22	
November	91.35	-1.3	175.2	-3.3	9.11	15.7	174.48	-16.4
December	91.46		176.3		9.05		176.74	
January 1991	90.93		175.7		9.08		175.56	
February	90.91	0.9	175.1	-1.1	9.11	2.1	174.38	-3.2
March	92.85		174.8		9.10		174.28	
Chng Mar(91)/Mar(90)		-1.3		-2.7		6.3		-5.1
Chng Mar(90)/Mar(89)		-3.0		3.0		-8.7		11.5

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	293.3		788.1		3181.4		8.84		7.62	
November	293.9	4.0	789.4	5.2	3200.6	7.3	8.55	-19.1	7.49	-9.4
December	295.6		794.8		3220.0		8.45		7.42	
January 1990	298.2		794.7		3229.1		8.23		7.55	
February	300.0	8.5	801.2	4.8	3254.0	6.4	8.24	-15.8	7.70	10.5
March	302.8		804.6		3267.9		8.28		7.85	
April	304.5 *		808.0 *		3277.0 *		8.29 *		7.93 *	
May	306.1	7.8	811.3	5.6	3293.5	5.7	8.33	2.8	8.04	16.1
June	307.5		814.2		3316.9		8.30		8.01	
July	309.2		817.5		3331.6		8.27		7.95	
August	310.4	5.7	820.6	4.7	3348.5	6.6	8.25	1.0	7.93	0.3
September	311.3		823.5		3365.7		8.46		8.12	
October	312.8		826.5		3381.8		8.59		8.31	
November	314.2	5.2	829.9	4.7	3398.7	6.0	8.67	18.1	8.53	24.3
December	315.8		833.4		3412.6		8.78		8.50	
January 1991	317.0		836.5		3430.4		8.73		8.45	
February	318.6	5.5	839.1	4.8	3445.8	5.7	8.91	10.0	8.59	6.0
March	319.8		843.5		3460.3		9.03		8.67	
Chng Mar(91)/Mar(90)		5.6		4.8		5.9		9.1		10.4
Chng Mar(90)/Mar(89)		4.6		2.4		5.9		-15.9		-11.3

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
October	8.92		7.22		8.53		8.60		10.50	
November	8.89	-3.5	7.14	1.1	8.35	-11.5	8.39	-12.6	10.50	-5.9
December	8.86		6.98		8.29		8.32		10.50	
January 1990	8.99		7.10		8.20		8.10		10.11	
February	9.22	14.4	7.22	5.2	8.14	-8.5	8.22	-9.7	10.00	-16.5
March	9.37		7.29		8.28		8.35		10.00	
April	9.53 *		7.44 *		8.30 *		8.39 *		10.00 *	
May	9.57	16.4	7.48	14.4	8.38	6.1	8.47	10.3	10.00	-1.5
June	9.55		7.43		8.31		8.42		10.00	
July	9.48		7.38		8.25		8.33		10.00	
August	9.77	7.6	7.67	11.6	8.23	-1.0	8.32	-1.1	10.00	3.1
September	9.93		7.92		8.45		8.56		10.23	
October	10.02		7.98		8.52		8.63		10.50	
November	10.05	12.9	8.04	19.8	8.61	16.1	8.74	17.2	10.50	17.9
December	10.01		8.01		8.75		8.86		10.50	
January 1991	10.07		8.06		8.71		8.83		10.50	
February	10.13	2.4	8.11	2.9	8.87	10.4	8.99	10.6	10.50	2.0
March	10.06		8.03		8.95		9.08		10.66	
Chng Mar(91)/Mar(90)		7.4		10.2		8.1		8.7		6.6
Chng Mar(90)/Mar(89)		-4.4		-4.0		-16.1		-17.2		-13.0

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
May 1990

Dr. Donald Ratajczak, Director
For Release: Tuesday, May 29, 1990

APRIL'S ECONOMY WAS WEAK, BUT IS IT A TREND?

When 79,000 of the 64,000 increase in payroll employment is the result of people counting other people, as was the case in April, the economy has stalled. Moreover, the labor diffusion index fell below 50%, as sign of contraction in the labor markets. A slumping workweek and a fall in the household estimate of employment confirm the weakness in payroll employment, although the survey was conducted on the week containing Good Friday, which normally shortens the workweek. Retail sales also fell, for the second consecutive month, industrial production was down, housing starts reached their lowest levels since 1982, while the trade deficit rose sharply in the previous month. Except for the Census takers, no pockets of strength were apparent in the April economy.

Of course, some of the weakness could be the result of statistical aberrations. Not only was the employment survey conducted on Easter week, but the advance retail sales report showed a dip in auto spending despite no change in reported units sold by the manufacturers. As sales rebounded during the last ten days of April, the advance report may have missed the rebound. Consumer spending in the personal income report, which has more complete retail data, did not show the dip that the advance report indicated. (This suggests an upward revision in retail sales when the May report is released).

Also, the 99,000 plunge in construction employment merely indicates that more normal weather had returned following unusually favorable construction weather during the winter. Construction is weak, as the housing starts reports suggest, but employment should not plunge by the amounts that occurred in March and April.

Excluding autos, industrial production would not have declined. With production at 6.1 million units in April, further reductions in auto production are not likely. In fact, production may increase during the summer to assure ample cars if some labor conflict develops when the UAW contract expires on September 14. And, of course, the weakness in trade activity was for March. A rebound in exports is expected in April.

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Thus, the stall in April appears to more likely reflect an economy that is shifting gears following unusual winter activity rather than one that is tumbling into recession.

Indeed, the economy shows no serious imbalances except in the financial sector. Inventories were liquidated during the first quarter, and auto inventories continued to be liquidated in April. Consumer debt has been growing at half the rate of consumer incomes since the beginning of this year. The savings rate remains low historically, but is significantly above rates of the past two years. While housing starts continue to tumble in all regions except the midwest, construction now is below the rate of household formations. This should initially reduce rental vacancy rates and ultimately lead to increased housing activity. (Auto sales also are behind the replacement demand for vehicles, suggesting that no sharp corrections should be expected there).

Construction excesses abound, but the vacancy rates are slowly coming down. The availability of RTC property could extend the adjustment phase of the construction cycle, but the depths of the decline should not be much beyond current activity.

Unfortunately, financial conditions are not favorable. Following a moderate weather induced spurt during the winter, money growth has slowed sharply. Loan activity has seen little growth since January, although commercial paper borrowing by nonfinancial institutions are up sharply. Although interest rates have increased, tight regulatory conditions rather than high prices appears to be the major financial constraint. Last year loan officers would asked to grow their portfolios, this year they are asked to avoid problem loans. At the same time, many developers and small businesses are discovering that their borrowing relationships with thrifts must be terminated because loans to a single party cannot exceed 15% of the institution's capital, regardless of the quality of the loan. Unfortunately, some of these customers cannot find ready access at commercial banks because their loan officers are avoiding problems.

Much of the regulatory restraint has fallen upon developers, where some constraint probably is needed to reduce the excess inventory. Nevertheless, the impact of tightened regulations has been to slow economic growth.

Currently, enough financing is available to permit many suppliers to finance their customers. Also, leasing has grown sharply in this tight environment. Indeed, the sharp growth in nonfinancial commercial paper may indicate that some disintermediation is occurring, but the channel is through suppliers rather than to alternative financial sources. With such funding, capital spending should continue to expand, especially in the cost cutting computer and communications equipment and related software.

The dollar's continued weakness against European currencies and renewed weakness against the yen should preserve export growth through this year and into next year. Some import substitution also could develop, although much of the change is with transplants displacing some of the imported goods. As the transplants generally carry more import components than domestically produced goods, the trade advantages from this import substitution are smaller than normal.

Of course, the economy should rebound late in the spring and during the summer as lean inventories require increased production. A continuation of moderate consumer spending along with capital spending and export growth should more than offset any further construction weakness and the weakness spawned by slower government growth once the Census activity has peaked. However, the expansion is relatively fragile and may not be able to withstand a substantial burst of budgetary restraint. Any substantial tax measures and further spending restraint along with the further projected decline in defense activity could tilt the economy into a downturn. Indeed, further regulatory tightening could begin to restrain the credit flow from suppliers that has prevented any serious deterioration in the activities of small and moderate businesses. At the present time, however, the April stall probably was a spring chill that will be forgotten in the production warmth of summer.

Monthly Statistical Highlights

	MAY 1990	JUNE 1990	JULY 1990
Payroll Employment	+244,000	+124,000	+77,000
Index of Hours Worked	+0.3%	+0.1%	+0.1%
Household Employment	+130,000	+138,000	+132,000
Civilian Unemployment Rate	5.3%	5.3%	5.3%
Personal Income	+0.4%	+0.5%	+0.5%
Savings Rate	5.4%	5.5%	5.4%
Personal Consumption	+0.5%	+0.4%	+0.5%
Retail Sales	+0.7%	+0.2%	+0.4%
Auto Sales	9.3*	9.5*	9.6*
Housing Starts	-1.0%	+0.2%	+0.5%
Housing Permits	+5.5%	-2.6%	+0.7%
Construction Expenditures	-1.0%	-0.5%	-0.1%
Business Inventories	+0.3%	+0.3%	+0.4%
Orders for Durable Goods	+1.6%	+1.1%	-0.0%
Orders - Nondefense Capital Goods	+3.2%	+2.4%	-0.3%
Industrial Production	+0.2%	+0.3%	+0.3%
CPI	+0.3%	+0.3%	+0.3%
PPI	+0.3%	+0.3%	+0.2%
Consumption Deflator	+0.1%	+0.4%	+0.3%
Leading Indicators	+0.2%	+0.1%	-0.1%
Currency Index	-1.4%	-1.8%	-0.7%
Equity Index	+1.6%	-0.2%	+4.0%
Real GNP (annual rate)	+3.2%	+1.4%	+3.8%
M1 (annual rate)	-0.4%	+4.1%	+5.8%
M2 (annual rate)	+0.8%	+5.8%	+6.7%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Everything about the April employment report showed weakness. The service sector showed less growth than normal, as business services showed their smallest gains of the year. Little change occurred in trade, while construction fell 99,000. Except for Census workers, payrolls would have declined by 15,000. The diffusion index indicated that the weakness was widespread. The workweek also fell, although the survey was conducted on Easter week. Even hourly earnings showed only a 0.3% gain despite the introduction of minimum wage standards. Finally, household employment underscored the weakness by falling 218,000 and the unemployment rate rose by 0.2 percentage points.

However, all the decline in manufacturing occurred in headquarters activity. Production workers actually increased, suggesting increased activity on the plant floors. (Also, an improvement in the ratio of production workers almost always means that productivity will perform above trend.) A rebound in the workweek should occur in May, and some gains are likely in goods production, as construction returns to a slight downward trend following an unusually mild winter.

The continued large discrepancy between payroll and household employment growth remains a mystery. Also, the sharp quarterly slowing in hourly earnings is at odds with other measures of employment costs. Perhaps, composition shifts were responsible for the substantial slowing. At any rate, our PROJECTIONS show gradual slowing in the growth of labor inputs and an upward drift in the unemployment rate. Little acceleration in hourly earnings is foreseen, however.

PERSONAL INCOME AND OUTLAYS-Although minimum wage legislation was not apparent in the hourly earnings, it certainly aided the growth of wages in April. Also adding to the wage bill is the temporary hiring of Census enumerators. Because of the low response to the Census survey, more enumerators will be needed for a longer period than originally expected. The Census also will cost more. Government payrolls then will slow in the summer and fall. Thus, the spring spurt in wage earnings will be followed by considerably slower growth. Without this spring spurt, personal income would be growing very slowly, because strong farm subsidies in the winter will give way to more normal farm incomes in the spring. For example, farm incomes reached $67 billion in March and fell to a still high $51 billion in April. For all of 1990, farm incomes should average near $47 billion. This slowing in farm incomes also accounts for the dip in savings during the spring and summer months. Partially offsetting the dip in farm and wage incomes will be slightly faster growth in property incomes than during the early part of this year.

Our PROJECTIONS show no reticence by consumers. Although dollar gains in consumption have slowed, this is largely the result of slower inflation. Of course, auto sales also are slightly weaker in the spring. In addition, the mild weather helped remodeling and furniture activity. A return to more normal weather has slowed that activity. The spring spurt in services consumption occurs despite a slowing in prices of services. Indeed, strength in the service economy accounts for much of the continued strength in consumption despite slowness in durables. Stronger financial activity and transportation activity appears to account for the gains in service activity. These gains are not expected to continue at the spring growth rates, however.

CONSTRUCTION-All of the winter gains in housing activity are being reversed in the spring. However, activity is weaker than that, as the sharp decline in permits clearly suggests. This permit weakness appears to be the result of credit problems as well as the normal excesses of the market. While the April permit level probably is the low point for this cycle, activity remains stronger than those permits will support. Weakness continues to multi-family activity and is especially significant in the New England region. However, activity also has begun to weaken in the West and remains sluggish in the South. Modest mortgage rate relief in the summer should increase activity slightly, but rising rates in the fall could lead to further weakness in single family activity at that time.

Despite the slump in housing activity, residential spending should show some growth next year. Sluggish gains are expected for nonresidential activity while public construction should grow more slowly in the next twelve months now that natural catastrophe needs have been met.

__BUSINESS ACTIVITY__-Apparently, some of the slump in durable goods orders occurred because backlogs were becoming too long. As a result, potential purchasers decided to forego ordering until better delivery times could be determined. This was especially true for commercial aircraft. Now that shipments have rebounded, orders should begin to improve, although no improvement was apparent in April. All the April weakness was in the volatile transportation sector, however. The strong gains expected in communication and computer equipment as well as computer software are not as easily covered in the durable goods report as other gains in capital spending. Despite slow orders in April, growth in orders is anticipated through the remainder of the year to provide consistency to the anticipations surveys.

Inventories remain sluggish, although they are again beginning to be accumulated. Gradual gains in inventories are expected through the remainder of the year, although activity could intensify in the summer and then slow in the fall if hedge auto production occurs prior to the UAW contract expiration.

Despite sluggish economic growth, industrial activity has begun to stir. The 0.9% annualized gain during the winter is especially significant as the mild weather reduced utility production. On the other hand, capacity continues to grow stronger than production. No substantial capacity problems are likely. Only during the summer months should any hint of industrial price pressures be present.

__PRICES__-Of course, the winter price surge is followed by the spring and summer price moderation. Surprisingly, the adjustment in nondurables is being delayed because of gasoline pricing. This should preserve moderate pricing into the fall, as gasoline prices almost certainly will decline in the summer in the absence of further OPEC restraints. The surge in service prices apparently was related to higher housing costs associated with increased property taxes. While taxes should continue to rise, these gains were especially strong and should not be repeated. Therefore, service inflation should return to a trend rate of change for another twelve months.

The construction deflator is being buffeted by two forces. Weak demand is lowering the costs of some construction materials, but production restraints associated with environmental concerns is reducing production. A gradual increase in prices is expected from this activity.

Following its first quarter surge, the GNP deflator should return to trend during the remainder of this year. A decline in gasoline prices during the summer might create slightly below trend inflation rates at that time.

__MISCELLANEOUS__-Despite the apparent weaknesses in April, our GNP estimates suggest that enough service and trade activity occurred to generate moderate gains in economic activity for the month. Stronger gains are expected in May, but activity should reach its strongest growth rates in the summer. Sluggish activity should develop in the fall, as some inventory again may be reduced.

Despite monthly fluctuations, the **leading indicators** should continue to trend upward very modest during the forecast period. Gains in orders, building permits, and financial variables should offset weakness in labor market measures and little change in the inflation related variables.

The merchandise trade balance was aided by strong aircraft shipments in the first quarter. As those shipments return to a slower, but more orderly advance, some reductions in the trade balance is expected. However, general improvement is expected through the remainder of this year.

Some of that trade improvement will occur because of further declines in the dollar's value, especially against European currencies. These declines are not expected to be large, and should begin reversing direction by the end of the year. Therefore, no investor flight from dollar based assets is expected.

Strong payroll gains place further pressure on adjusted profits through the spring. However, improved growth and moderating wages relative to expenditures should improve profitability in the summer. The decline in profits clearly is being reversed, although the 7% gain during the next year remains modest.

FINANCIAL MARKETS

One of the interesting economic questions is why the inventory liquidation has not reduced interest rates. One of the answers clearly is the increased inflationary fears that first quarter price gains generated. But the more likely answer is that corporate cash flow was falling as fast as inventories. Therefore, the corporations were not able to reduce their use of funds. The decline in cash flow occurred because of strong labor costs and the reduced earnings generated by slow economic activity. Labor costs remain strong during the spring but should ease in the summer. Unfortunately, inventories and capital spending should be rising at that time. While some gains in corporate cash flow are possible while capital spending slows early next year, it appears that corporations will continue to exert upward pressures upon interest rates for the next year.

Despite rising earnings, the household sector exhausted all of its gains by maintaining its consumption at higher prices. Now that prices are moderating, falling farm incomes should prevent the household sector from substantially adding to the sources of funds. Of course, reduced housing activity should also reduce household use of mortgage funds. Thus, the household sector could be easing interest rate pressure slightly in the summer and fall. Then little further additions from the household sector are expected as next year begins.

Of course, the government sector's borrowing appears to be a major contributor to the rise in interest rates early this year. Deficits are again rising, even if the savings and loan bailout is ignored. (For interest rate purposes, the bailout is a redeployment of existing assets rather than a change in those assets. Therefore, the interest rate impact of such borrowing should not be substantial.) Part of the increase is the result of reduced tax payments, especially by corporations. However, those reductions have not led to improving corporate cash flow. With the deficit rising from $145 billion during last summer to $172 billion during the winter. Despite the "peace dividend", expenditures grew by the same 6.2% during the past twelve months as GNP. These deficits may rise slightly further in the spring, before increased activity should reduce the deficits in the summer. Therefore, the strong pressures generated by government borrowing should gradually ease in the summer months.

If government borrowing can be contained, interest rates could fall briefly in the summer. However, rising rates are again likely in the fall and winter as corporate borrowing persist and the household sector begins using funds for housing purchases.

At this time, foreign investors are expected to play only a limited role in our interest rates. The dollar has fallen to levels in Europe that assure further gains in our trade balances with that area. The yen's recent rebound also assures little further deterioration in trade conditions in Asia. Although falling interest rates during the summer could temporarily reduce capital flows, an improving dollar late this year should bring back the foreign capital.

Probably the most likely interest rate scenario is little change in short-term rates until after the Congressional elections. Then, some Federal Reserve restraint should raise rates late this year and early next year. Long-term rates should flow with the inflationary fears. As those fears diminish during the summer, long-term rates should decline. As activity increases in the fall, however, some gains in rates are likely.

EQUITY MARKETS-Are equity markets overvalued? Our formulas cannot explain the last five percent in market values, but that is a minor magnitude of overvaluation. Normally, anything less than ten percent overvaluation does not elicit a correction. However, weakness in the fall should again be expected. Not only will investors remember previous falls, but rising interest rates and falling profitability will add to uncertainty of equity values. Any downturn should be short-lived, however. Renewed profit growth and some moderation in interest rates should again provide a favorable climate for equity values by winter. Even so, the gains in the stock market have been modest in the past year and are expected to remain modest next year. Although total rates of return are expected to outperform bonds, they will only by about 8%, a continuation of modest returns that began last year.

Some of the sectors that should do well are the regional financials which have little real estate problems, the technology companies, which should rebound as orders for their products improve, and some of the cyclicals, which should rebound once recessionary fears subside. European related investments also look enticing. However, selectivity rather than buying or selling the market will be the approach that successful investors will take during the next year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
January 1990	109931		129.5		117863		5.3	9.83	
February	110304	3.0	130.2	3.0	118035	1.0	5.3	9.88	2.5
March	110407		130.3		118334		5.2	9.92	
April	110471		130.2		118116		5.4	9.95	
May	110715 *	1.7	130.6 *	1.5	118246 *	0.6	5.3 *	9.99 *	4.5
June	110839		130.7		118384		5.3	10.02	
July	110916		130.8		118516		5.3	10.05	
August	111023	1.3	131.0	1.5	118627	1.3	5.4	10.09	4.2
September	111146		131.2		118745		5.4	10.13	
October	111288		131.3		118864		5.4	10.16	
November	111413	1.4	131.3	1.0	118997	1.2	5.4	10.20	4.4
December	111553		131.4		119093		5.5	10.24	
January 1991	111698		131.5		119204		5.5	10.27	
February	111842	1.5	131.6	0.9	119326	1.2	5.5	10.31	4.2
March	111995		131.8		119458		5.5	10.34	
April	112118		131.9		119586		5.5	10.38	
May	112256	1.5	132.0	1.2	119704	1.3	5.6	10.41	4.2
June	112426		132.2		119839		5.6	10.45	
Chng June(91)/June(90)		1.4		1.1		1.2			4.3
Chng June(90)/June(89)		2.1		2.0		0.7			4.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	4.603		2.725		209.5		3.936		3.726	
February	4.638	9.4	2.748	6.9	219.1	9.0	3.965	10.1	3.745	10.2
March	4.674		2.763		233.6		3.997		3.764	
April	4.688		2.782		221.2		4.007		3.786	
May	4.705 *	6.1	2.798 *	7.7	216.0 *	-2.7	4.021 *	5.9	3.805 *	6.5
June	4.730		2.811		220.4		4.042		3.822	
July	4.753		2.823		219.4		4.061		3.842	
August	4.781	6.3	2.841	6.4	216.5	1.0	4.085	6.2	3.869	6.6
September	4.808		2.858		223.4		4.108		3.885	
October	4.832		2.871		225.9		4.128		3.902	
November	4.856	6.7	2.883	6.3	224.2	13.0	4.148	6.6	3.924	6.1
December	4.887		2.899		229.7		4.174		3.944	
January 1991	4.906		2.911		226.2		4.194		3.968	
February	4.934	6.3	2.927	6.0	228.4	2.3	4.219	6.7	3.991	7.0
March	4.959		2.941		229.0		4.240		4.011	
April	4.987		2.957		229.0		4.263		4.034	
May	5.010	6.6	2.969	6.2	224.9	0.4	4.281	6.4	4.056	6.7
June	5.040		2.987		230.3		4.306		4.076	
Chng June(91)/June(90)		6.6		6.3		4.5		6.5		6.6
Chng June(90)/June(89)		7.1		7.2		0.8		7.0		7.4

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	3619.9		505.6		1156.2		1958.0		2708.0	
February	3638.8	10.3	485.7	19.9	1176.0	9.8	1977.1	8.4	2711.9	2.4
March	3658.2		482.5		1175.6		2000.1		2709.0	
April	3680.1		486.3		1176.9		2016.9		2718.3	
May	3699.2 *	6.7	492.9 *	-0.3	1180.6 *	3.8	2025.8 *	10.2	2727.3 *	2.3
June	3715.5		493.7		1183.5		2038.3		2729.9	
July	3735.2		496.4		1186.8		2052.1		2736.3	
August	3761.7	6.6	504.1	8.8	1190.9	3.4	2066.7	8.0	2749.6	3.0
September	3777.4		503.7		1193.3		2080.4		2750.7	
October	3794.4		503.3		1197.4		2093.6		2752.7	
November	3815.5	6.2	507.8	4.5	1200.5	3.6	2107.2	8.1	2758.5	1.8
December	3835.4		509.8		1204.8		2120.8		2763.0	
January 1991	3858.4		513.5		1209.6		2135.3		2770.0	
February	3880.9	7.0	517.5	7.6	1213.8	4.5	2149.6	8.3	2775.8	2.5
March	3900.5		518.1		1218.9		2163.4		2779.8	
April	3923.1		520.9		1224.5		2177.7		2785.7	
May	3944.6	6.7	525.1	5.6	1229.0	5.1	2190.5	8.0	2789.9	2.0
June	3963.7		524.4		1234.1		2205.3		2791.6	
Chng June(91)/June(90)		6.7		6.2		4.3		8.2		2.3
Chng June(90)/June(89)		7.5		5.2		5.2		9.5		2.7

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	149.87		22.94		10.2		93.66		33.27	
February	149.91	11.4	23.63	16.3	9.5	54.3	94.87	9.1	31.41	14.8
March	149.55		23.33		9.5		94.88		31.34	
April	148.65		23.31		9.5		94.85		30.49	
May	149.71 *	-0.8	23.35 *	0.4	9.3 *	-11.8	95.13 *	2.8	31.23 *	-11.7
June	150.04		23.31		9.5		95.37		31.36	
July	150.60		23.44		9.6		95.63		31.53	
August	151.79	5.4	23.50	2.9	10.2	24.6	95.96	3.4	32.33	13.7
September	151.94		23.53		10.1		96.16		32.25	
October	152.23		23.52		9.3		96.49		32.22	
November	152.97	3.9	23.56	1.5	9.5	-18.6	96.74	3.6	32.67	6.8
December	153.54		23.65		9.6		97.08		32.81	
January 1991	154.34		23.78		9.7		97.47		33.09	
February	155.12	5.6	23.89	4.5	9.9	16.4	97.81	4.5	33.42	9.9
March	155.60		23.85		9.9		98.22		33.53	
April	156.36		23.98		10.0		98.67		33.71	
May	157.18	5.3	24.11	4.4	10.1	8.4	99.03	5.1	34.04	6.4
June	157.51		24.21		10.0		99.44		33.86	
Chng June(91)/June(90)		5.0		3.9		5.3		4.3		8.0
Chng June(90)/June(89)		3.9		4.2		-3.1		5.2		0.1

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	1.568		1.099		0.469		1.739	
February	1.488	37.4	1.154	46.9	0.334	13.6	1.297	12.7
March	1.321		1.010		0.311		1.232	
April	1.245		0.934		0.311		1.125	
May	1.233 *	-48.2	0.910 *	-48.4	0.323 *	-47.8	1.187 *	-56.4
June	1.235		0.922		0.313		1.156	
July	1.241		0.936		0.305		1.164	
August	1.242	1.7	0.945	9.9	0.297	-19.5	1.158	2.9
September	1.246		0.951		0.295		1.171	
October	1.260		0.955		0.305		1.178	
November	1.266	5.2	0.952	1.6	0.314	17.5	1.184	4.1
December	1.251		0.936		0.315		1.166	
January 1991	1.247		0.928		0.319		1.189	
February	1.268	2.2	0.946	-0.8	0.322	12.1	1.183	4.6
March	1.283		0.963		0.320		1.196	
April	1.294		0.977		0.317		1.203	
May	1.306	13.3	0.978	14.9	0.328	8.6	1.211	6.4
June	1.319		0.983		0.336		1.210	
Chng June(91)/June(90)		6.8		6.6		7.3		4.7
Chng June(90)/June(89)		-12.7		-5.0		-29.3		-12.6

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	137.5		90.8		196.7		425.0		353.6	
February	143.5	13.2	95.3	18.3	199.7	21.4	438.5	18.1	363.0	17.4
March	138.5		90.7		203.2		432.4		358.5	
April	138.1 *		90.3 *		199.7 *		428.1 *		354.4 *	
May	137.6	-5.9	90.6	-7.6	195.8	-6.6	424.0	-6.6	350.4	-7.9
June	137.5		90.5		193.9		421.9		348.4	
July	137.8		90.7		193.0		421.5		347.5	
August	138.4	0.8	90.4	0.9	193.5	-5.8	422.3	-2.3	347.3	-4.2
September	137.8		90.9		194.2		422.9		347.2	
October	138.2		91.1		195.6		424.9		348.6	
November	138.3	1.1	91.0	2.2	196.5	5.8	425.8	3.5	348.4	1.4
December	138.6		91.4		196.9		426.9		348.5	
January 1991	138.1		91.6		196.1		425.8		346.7	
February	138.4	0.6	91.9	2.2	196.8	1.3	427.1	1.3	347.2	-1.2
March	139.2		91.5		198.0		428.7		348.3	
April	139.7		92.1		198.8		430.6		349.2	
May	139.3	3.2	92.5	3.4	199.7	5.7	431.5	4.4	349.1	2.4
June	140.0		92.7		200.6		433.3		350.0	
Chng June(91)/June(90)		1.8		2.4		3.5		2.7		0.5
Chng June(90)/June(89)		1.9		8.4		-0.2		2.3		0.9

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	374.1		117.91		38.35		35.19	
February	373.2	1.3	120.78	-18.2	36.09	-12.5	36.83	20.5
March	371.9		128.58		40.90		36.16	
April	372.7 *		123.27		36.93		35.53	
May	373.5	0.6	125.28 *	8.9	38.11 *	-4.4	36.21 *	0.3
June	374.6		126.63		39.01		36.53	
July	375.9		126.57		38.89		36.72	
August	377.5	4.3	127.47	6.8	39.21	11.0	36.95	9.7
September	379.2		127.39		38.96		37.13	
October	380.6		127.93		38.96		37.53	
November	382.1	4.9	129.43	7.1	39.53	4.7	37.62	8.3
December	383.5		130.65		39.93		37.89	
January 1991	385.0		131.67		40.26		38.21	
February	386.4	4.7	130.98	6.5	40.15	8.6	38.43	8.5
March	387.9		131.54		40.48		38.72	
April	389.6		133.27		41.21		38.65	
May	391.3	5.2	131.66	2.6	40.53	5.0	38.69	2.8
June	393.2		131.83		40.62		38.81	
Chng June(91)/June(90)		5.0		3.9		4.1		6.2
Chng June(90)/June(89)		2.2		1.2		-0.3		5.1

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	797.2		8.49		107.5		82.7	
February	794.0	-0.5	8.16	-21.2	108.5	0.9	83.2	-2.7
March	794.0		8.60		109.1		83.5	
April	795.6 *		8.68		108.7		83.0	
May	797.8	1.4	8.63 *	10.4	108.9 *	2.1	83.0 *	-0.5
June	800.1		8.57		109.2		83.1	
July	803.1		8.65		109.5		83.2	
August	806.5	4.3	8.56	2.2	109.8	3.2	83.2	1.0
September	809.4		8.81		110.1		83.3	
October	812.8		8.29		109.9		82.9	
November	814.9	4.3	8.47	-3.5	110.1	1.1	82.9	-1.6
December	817.1		9.03		110.3		82.9	
January 1991	820.6		8.50		110.6		83.0	
February	824.3	4.6	8.44	-5.3	110.8	2.6	83.0	0.3
March	827.8		8.50		111.0		82.9	
April	831.3		8.44		110.9		82.5	
May	834.9	5.4	8.38	-2.3	111.1	1.0	82.5	-2.4
June	839.1		8.47		111.2		82.4	
Chng June(91)/June(90)		4.9		-1.2		1.8		-0.3
Chng June(90)/June(89)		2.3		-7.1		0.7		-0.8

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	127.7		117.6		114.2		127.6	
February	128.4	8.5	117.3	8.2	113.6	5.1	128.1	5.7
March	129.0		117.0		113.2		128.8	
April	129.3		116.6		113.1		129.1	
May	129.7 *	4.2	117.0 *	-1.1	113.7 *	-0.2	129.4	4.1
June	130.1		117.3		114.0		129.8	
July	130.5		117.5		114.3		130.2	
August	130.8	3.6	117.5	2.1	114.6	2.1	130.5	3.4
September	131.3		117.7		113.7		131.0	
October	131.8		118.0		114.7		131.4	
November	132.3	4.5	118.4	2.9	115.0	3.0	131.8	4.1
December	132.8		118.8		115.4		132.3	
January 1991	133.3		119.2		115.7		132.8	
February	133.8	4.6	119.6	4.1	116.0	3.4	133.2	4.2
March	134.3		120.0		116.3		133.7	
April	134.8		120.3		116.6		134.1	
May	135.4	4.9	120.7	3.7	116.9	3.1	134.6	4.4
June	136.0		121.1		117.2		135.2	
Chng June(91)/June(90)		4.5		3.2		2.8		4.1
Chng June(90)/June(89)		4.8		2.6		1.4		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	133.7		113.0		127.1		145.0		120.2	
February	134.2	7.8	112.8	4.0	127.8	13.2	145.3	6.0	120.8	0.7
March	135.0		112.6		128.9		146.2		120.6	
April	135.4		112.6		129.1		146.7		120.8 *	
May	135.6 *	4.3	112.7 *	-0.1	129.2 *	4.2	147.2 *	4.9	121.0	1.4
June	136.1		113.0		129.5		147.8		121.1	
July	136.5		113.2		129.7		148.4		121.3	
August	136.8	3.5	113.1	1.7	129.9	2.2	149.0	4.9	121.6	2.0
September	137.3		113.4		130.3		149.6		121.8	
October	137.8		113.7		130.7		150.2		121.9	
November	138.3	4.3	114.0	2.7	131.1	3.5	150.8	4.9	122.2	2.1
December	138.8		114.3		131.5		151.4		122.5	
January 1991	139.3		114.6		131.9		152.0		122.8	
February	139.8	4.4	114.9	3.2	132.4	3.9	152.6	4.9	123.0	2.5
March	140.3		115.2		132.8		153.2		123.1	
April	140.8		115.4		133.2		153.9		123.3	
May	141.4	4.6	115.7	2.8	133.7	4.1	154.6	5.3	123.6	2.0
June	142.0		116.0		134.2		155.3		123.8	
Chng June(91)/June(90)		4.3		2.7		3.6		5.1		2.2
Chng June(91)/June(90)		4.7		1.9		4.9		5.0		1.3

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
January 1990	-9.32		145.3		5398		4180		-14.6
February	-6.10	48.9	143.9	0.3	5428	7.0	4188	1.3	-12.2
March	-8.45		145.2		5468		4195		-10.1
April	-8.05 *		144.7 *		5487		4199		-8.6
May	-7.96	-6.0	145.0	0.4	5513	6.1	4210	1.9	-7.3
June	-8.21		145.1		5537		4215		-6.4
July	-8.53		145.0		5570		4228		-8.3
August	-7.90	-2.8	145.1	0.5	5596	6.4	4238	2.9	-9.7
September	-7.96		145.2		5629		4248		-8.6
October	-8.48		145.4		5648		4248		-10.3
November	-8.26	10.5	145.7	1.4	5671	5.3	4250	1.2	-11.9
December	-6.98		145.7		5695		4254		-12.2
January 1991	-7.93		146.0		5732		4266		-14.3
February	-7.14	21.5	145.8	0.9	5768	7.0	4278	2.6	-12.6
March	-7.26		146.0		5803		4290		-11.9
April	-7.11		146.2		5830		4295		-12.8
May	-6.93	18.6	145.9	0.2	5853	6.1	4296	1.7	-14.3
June	-7.17		145.9		5880		4298		-13.6
Chng June(91)/June(90)		12.7		0.6		6.2		2.0	
Chng June(90)/June(89)		3.3		0.8		6.2		1.9	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	93.00		156.7		8.26		187.96	
February	92.25	-16.0	163.4	-12.8	8.50	28.1	182.55	-13.0
March	94.11		169.5		8.56		186.26	
April	93.53		160.4		8.76		185.61	
May	92.21 *	-4.3	164.6	-3.5	8.85 *	15.5	188.53 *	4.0
June	90.56		160.3		8.64		188.07	
July	89.93		165.1		8.56		195.51	
August	88.57	-10.5	168.6	17.4	8.63	-5.2	198.04	23.9
September	90.26		171.5		8.71		199.59	
October	91.43		164.6		8.75		190.69	
November	91.86	12.0	166.7	-6.7	8.84	9.9	191.15	-15.1
December	93.20		165.2		8.93		187.53	
January 1991	92.27		168.8		9.02		189.70	
February	92.86	3.3	172.4	18.2	9.11	11.1	191.83	6.3
March	93.61		176.5		9.10		196.61	
April	93.88		177.3		8.93		201.26	
May	94.15	3.5	174.2	4.0	8.95	-6.4	197.30	11.2
June	93.12		171.3		8.90		195.11	
Chng June(91)/June(90)		2.8		6.9		3.0		3.7
Chng June(90)/June(89)		-12.2		-6.0		4.5		4.0

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
January 1990	298.2		794.8		3229.3		8.23		7.55	
February	300.0	8.6	801.4	4.9	3252.6	6.2	8.24	-15.8	7.70	10.5
March	303.3		804.8		3266.4		8.28		7.85	
April	303.7		807.2		3272.2		8.26		7.84	
May	306.0 *	7.1	806.9 *	3.8	3274.3 *	3.7	8.22 *	-1.1	7.82 *	5.5
June	307.3		809.6		3289.6		8.20		7.75	
July	308.9		813.4		3307.5		8.17		7.66	
August	310.4	6.1	817.6	4.6	3324.6	5.7	8.15	-2.2	7.61	-7.6
September	311.3		820.3		3341.2		8.22		7.68	
October	312.8		823.5		3356.5		8.29		7.79	
November	314.2	5.3	826.9	4.9	3372.5	6.0	8.23	4.6	7.75	7.5
December	315.8		830.4		3389.5		8.30		7.83	
January 1991	317.3		834.2		3409.4		8.49		8.02	
February	318.8	5.9	837.3	5.1	3430.6	6.8	8.67	18.9	8.21	21.2
March	320.2		840.6		3446.3		8.76		8.29	
April	321.7		844.5		3463.7		8.73		8.25	
May	323.1	5.6	847.3	4.8	3484.0	6.3	8.72	3.6	8.17	-0.2
June	324.6		849.8		3496.6		8.70		8.09	
Chng June(91)/June(90)		5.6		5.0		6.3		6.1		4.4
Chng June(90)/June(89)		6.0		4.6		6.1		-14.0		-2.3

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
January 1990	8.99		7.10		8.20		8.10		10.11	
February	9.22	14.4	7.22	5.2	8.14	-8.5	8.22	-9.7	10.00	-16.5
March	9.37		7.29		8.28		8.35		10.00	
April	9.46		7.44		8.30		8.42		10.00	
May	9.60 *	13.9	7.41 *	10.0	8.22 *	1.3	8.39 *	7.5	10.00 *	-1.5
June	9.43		7.28		8.18		8.31		10.00	
July	9.40		7.23		8.15		8.27		10.00	
August	9.46	-1.1	7.25	-5.0	8.13	-3.0	8.23	-4.2	10.00	0.0
September	9.55		7.37		8.23		8.35		10.00	
October	9.67		7.43		8.25		8.38		10.00	
November	9.76	12.4	7.55	15.7	8.29	6.5	8.42	7.1	10.00	3.9
December	9.85		7.68		8.36		8.48		10.29	
January 1991	9.96		7.75		8.48		8.63		10.50	
February	10.06	12.1	7.84	15.3	8.65	16.3	8.81	17.7	10.76	28.7
March	10.11		7.89		8.73		8.89		11.00	
April	10.01		7.82		8.70		8.84		11.00	
May	9.98	-2.8	7.73	-3.7	8.68	2.7	8.81	1.5	11.00	9.5
June	9.93		7.71		8.65		8.78		11.00	
Chng June(91)/June(90)		5.3		5.9		5.7		5.7		10.0
Chng June(90)/June(89)		3.6		3.7		-10.2		-9.7		-9.7

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS

June 1990

Dr. Donald Ratajczak, Director
For Release: Thursday, June 28, 1990

CONSUMERS REMAIN DISENGAGED FROM ECONOMY

In March, the weakness in retail sales was explained as faulty seasonal adjustments caused by the shifting Easter holiday. In April, declining retail sales were explained as a payback after strong retail activity during the mild winter, when sales rose an annualized 11.4%. In May, weak retail sales were blamed on damp, cold weather. No excuses come to mind for June, which must show a rebound in retail activity or we must conclude that consumers have taken a holiday. Certainly, reductions in consumer confidence suggest that concern about the economy is growing in the households. Moreover, the surge in savings during the first six months suggests that consumers have raised their desired savings activity. Unless strength surfaces in export activity or capital spending, such rising savings desires will lead to reduced economic growth.

The outlook for capital spending has weakened in recent months. The anticipations survey during the winter showed capital spending gains of 7.9% after inflation. The spring survey pared that to a gain of only 5.5%. Reduced optimism about sales along with tight credit conditions appear to be responsible for the reduced spending plans. The largest reduction from initial plans occurred in the service sector, where small businesses may be facing difficult obstacles in financing their spending programs because of increased regulatory surveillance of bank loans. Because of more stringent collateral requirements for loans, small businesses have not been able to meet the tougher bank standards. (Who said you could borrow on future earnings potential? Certainly not the Controller of the Currency).

Thus, the ability to withstand the shift in consumer sentiment without facing a serious slowing rests upon the trade sector. Some import substitution is beginning to take place, as more Japanese transplants are built in the United States. According to current production plans, by 1992, the Honda will be the most American built car in this country. It already is more American than most Chrysler products. Some other electronic components may be made more intensively in this country than in the past. Obviously, this import substitution will aid the trade balances and increase domestic employment even if domestic consumption does not grow. However, the impact of this change remains small.

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The outlook for exports looks a little more promising, although the April trade figures did not show further gains. After falling an annualized 16% during the first quarter, the dollar has declined slightly further during the spring, with most of the weakness developing against European currencies. At the same time, unit labor costs in manufacturing before currency translation continue to drop. They fell 1.3% during the winter, even as overall unit labor costs soared because of a 2.7% drop in private productivity. Once again, too many retail stores accounts for much of the problem in reduced productivity. Anyway, the manufacturing goods, which move more heavily in international markets remain competitive. This should allow further increases in our trade balances during the next year. Because of this continued growth of trade opportunities, a recession is not anticipated at this time.

In fact, inventory rebuilding by the auto industry during the summer months to strengthen their bargaining position against the UAW will ensure adequate industrial growth into the fall. Of course, such inventory gains will merely increase the likelihood of soft industrial activity during the fall. If consumer spending remains anemic at that time, a recession could develop early next year. Our PROJECTIONS do not show a recession, but the magnitude of weakness that will develop following the summer could easily trip the economy into a recession if economic policies become too restrained.

Economic policies currently are very restrictive. As inflation has slowed following the winter price surge, the Federal Reserve's targeted federal funds rate has led to substantial slowing in money growth. In May, all the money measures actually declined from the previous month. This weakness was blamed on shifting seasonals caused by tax refunds from the Treasury, but the contributions to the monetary base from Treasury deposit flows have not changed materially. Therefore, the weakness probably is the result of a change in the demand for money because of sluggish economic activity.

The Federal Reserve may not believe its current policy is restrictive because short-term interest rates have not increased and because the monetary base continues to grow vigorously. However, the latter gains are the result of surprisingly large gains in currency demand. Initially, currency demand soared because of the increase in prices for gasoline and fruits and vegetables following the winter freeze. However, currency continued to grow strongly after those prices were reversed. Although no satisfactory explanations have been advanced for this surprising result, some analysts have speculated that more dollars are flowing to Eastern Europe and that current stringency in money laundering has forced the drug traffic to increase their currency holdings. Some surprisingly large currency holdings have been recovered in recent drug arrests, but this could mean greater efficiency in apprehending rather than increased currency usage. In any event, some slowing in currency demand has been observed in recent weeks. If this trend continues, a slowing in the monetary base should convince the Federal Reserve that their current policies are restrictive.

Of course, federal budget deficits are soaring. After averaging $149 billion in 1989, the federal deficit on the national income accounts basis rose to $171 billion during the first quarter of 1990. Some of this increase is caused by higher interest payments and more grants-in-aid to state and local governments for unemployment and welfare purposes. However, a portion of the deficit is caused by rising subsidies to the insurance activities of the government, as depositors are made whole at failed thrifts.

Considerable debate about the economic impact of these borrowings to support thrift depositors has developed. Certainly, the assets created and misappropriated by the thrifts already have impacted interest rates and productive capability. By inefficiently utilizing capital, interest rates are higher than they otherwise would have been and the cost of capital is higher in this country than would have prevailed without such poor use of capital. However, the conversion of ownership from the private to the public sector has no further impact upon interest rates. In effect, private savings are being supported by government borrowings. Only the administrative activity associated with the thrift depositors' bailout constitutes further burdens to the system, and this impact should be small.

(However, if financial asset markets are partially segmented, the increased supply of government bonds could require higher interest rates to attract the foreign investors who never would have been attracted to the private sectors' securities. To that extent, government interest rates could increase relative to other interest rates because of the conversion from private to public ownership of thrift assets.)

There is one adjustment that remains to be accomplished. By supporting depositors, private wealth is not impaired by the failure of thrifts, at least not beyond to equity and some bond holders. But the market value of thrift assets clearly is lower. Therefore, total wealth must be lower. This adjustment to a reduced value of wealth will come either through higher taxes or increased tax liabilities to pay off the indebtedness spawned by the thrift asset devaluations. This reduced wealth will slow economic activity, probably through reduced consumption and investment spending. (Of course, some economists maintain that consumers already are responding to this increased tax burden.) Thus, the increased borrowings by the government to support the thrift depositors should not be viewed as a budgetary stimulus. Indeed, the devaluation of thrift assets should be viewed as an economic restraint. Raising taxes to reduce the deficit will merely institutionalize the restraint that the reduced wealth suffered from the devaluation of thrift assets already is beginning to generate. Therefore, these increased deficits should not be viewed as economic stimulus.

In short, policy may move toward undue restraint leading to an economic downturn because the impact of policy will be misread. Currently, a recession still is expected to be avoided because the Federal Reserve is expected to reduce its restraint. However, some return to inflation fighting resolve following the congressional elections may again raise the specter of recession by the end of 1991. Policy errors are among the major causes of recession, and some errors may be developing at the present time.

Monthly Statistical Highlights

	JUNE 1990	JULY 1990	AUGUST 199
Payroll Employment	+105,000	+102,000	+64,000
Index of Hours Worked	+0.0%	+0.2%	+0.0%
Household Employment	-23,000	+62,000	+13,000
Civilian Unemployment Rate	5.4%	5.4%	5.5%
Personal Income	+0.5%	+0.5%	+0.4%
Savings Rate	5.9%	6.0%	5.8%
Personal Consumption	+0.7%	+0.4%	+0.6%
Retail Sales	+0.6%	+0.2%	+0.7%
Auto Sales	9.6*	9.6*	10.2*
Housing Starts	-1.7%	+1.3%	+1.7%
Housing Permits	+1.5%	+2.4%	+2.5%
Construction Expenditures	+0.2%	-0.3%	+0.3%
Business Inventories	+0.2%	+0.3%	+0.3%
Orders for Durable Goods	-0.3%	+0.5%	+1.3%
Orders - Nondefense Capital Goods	+3.2%	+0.8%	+2.0%
Industrial Production	+0.3%	+0.3%	+0.3%
CPI	+0.3%	+0.2%	+0.2%
PPI	+0.3%	+0.2%	+0.0%
Consumption Deflator	+0.3%	+0.3%	+0.1%
Leading Indicators	+0.1%	+0.1%	+0.2%
Currency Index	+0.3%	-0.1%	-1.1%
Equity Index	+2.3%	+2.4%	-0.6%
Real GNP (annual rate)	+0.9%	+3.5%	+4.0%
M1 (annual rate)	+3.9%	+6.3%	+6.5%
M2 (annual rate)	+1.7%	+4.9%	+6.5%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Except for a 234,000 increase in civilian employment, the May employment report continued the weakness of previous months. April's activity was revised downward, as well. The Census now has reached peak levels of employment and will be subtracting from payroll employment in subsequent months. The manufacturing situation was mixed, as production workers declined, but the workweek expanded from 40.7 hours to 41.1 hours. This was more than a snap-back from an Easter week survey and suggests that employment may be rising in manufacturing during the next few months. Strength was especially significant in automobile and steel production. Hourly earnings continued to rebound strongly, but some of that increase clearly is the result of composition changes caused by higher paychecks in the auto and steel industries. Therefore, the acceleration from 2.5% during the first quarter to 4.7% estimated for the spring should not be construed as a rebound in wage inflation. In fact, we are projecting a moderate slowing in the growth of hourly earnings during the next twelve months.

The surge in civilian employment caused the unemployment rate to fall. However, moderation in employment growth should lead to a slight increase in unemployment rates during the next few months. Last year's sluggishness in employment and labor force growth remains a mystery, especially as payroll employment continued to expand rapidly. Perhaps, moonlighting is spreading, but that does not appear to be the most likely explanation. Finally, the surge in hours worked during the winter clearly reflected greater anticipated gains in production than materialized. Thus, the first quarter productivity slump should be followed by significant productivity gains later this year. Thus, the sluggishness in hours worked should not be related to weakness in production at this time.

PERSONAL INCOME AND OUTLAYS-Farm subsidies continued to fall in May, and they may decline further during the summer. As a result, personal income will be growing much more slowly than in the winter. Also impacting income growth is a slower rate of growth in wages and salaries as payroll growth slows sharply. In May, the distributive industries showed declines in wages while the service sector showed substantial slowing in wage gains. Some rebound should be anticipated in these areas in June, but the sluggish economy certainly will restrain income gains.

More significantly, the sluggish retail sales are beginning to show up in consumption performance. Of course, the cold weather restrained utility purchases in May, leading to lower gains in services than normal. A rebound should be expected there in June. Also, a slight gain in auto sales is projected for June. As a result, some gains in consumer spending should develop. Even so, consumption will hardly contribute to economic activity during the spring. Assuming falling prices for gasoline, higher purchasing power should generate some consumer gains in the summer. Also, some auto incentives should stimulate auto sales, although incentives may be delayed until progress is made with the auto wage negotiations. Therefore, the rebound in consumption during the summer remains open to considerable uncertainty.

Clearly, the slump in consumption is not income based, as savings rates have increased sharply during the winter and spring. The anticipated drop in savings during the summer is based upon incentive induced auto sales, which may be delayed. In general, the consumer appears to have shifted savings upward, which increases the likelihood that a policy error could lead to a downturn.

CONSTRUCTION-All the payback for the mild winter has occurred and construction still remains weak. Credit restraints clearly are restricting development. Builders are not getting funding to start new homes. Of course, the inventory of unsold homes, at 8.1 months, suggests that few new homes should be built. The greater decline in housing permits than housing starts during the spring suggests that further weakness could be anticipated in the housing market. However, if mortgage rates begin falling, as we expect, some improvement in housing activity could be anticipated. Even so, the rebound should not be substantial until supply becomes less overabundant.

The weakness in housing starts has not yet surfaced in residential expenditures, but it will. Of course, the sharp drop in public construction reflects a return to normal following unusual construction after the earthquake and hurricane. Strength in nonresidential activity has been concentrated in industrial activity, but even that sector should ease in the months ahead. Construction should remain weak into next year.

BUSINESS ACTIVITY-Although manufacturing inventories rebounded slightly in April, much of those increases were in goods in process. They probably were shipped in May. Business inventories are again being accumulated after first quarter liquidations, but the gains are small. More significant gains are expected in the summer months as the auto industry adds to its inventories. This modest gain in inventories apparently has generated more industrial activity than expected. Perhaps, some of these goods are going abroad. Certainly, only defense shipments show any significant gains for the quarter. Shipments of nondefense capital goods are weak, along with orders. However, some rebound in orders should develop during the summer as industry responds to strong activity in transportation equipment.

The May spurt in industrial activity was primarily the result of higher auto production, where activity rose from 6.1 million units to 7.5 million. Increases to more than 8 million are likely for short periods of time during the summer, but activity then should moderate. Utility production was down in May and should soar in June. This will place modest pressures on capacity utilization, but will not create inflation spawning bottlenecks.

PRICES-The slowing in consumer prices is on target as oil prices are falling sharply early in the summer. Prices may fall even more than expected for industrial commodities, because some of the non-OPEC producers have decided to end their policy of production restraint. If so, inflationary pressures could be less than currently projected during the summer. A rebound in prices is expected in the fall, but oil prices should remain below previous year levels. The auto incentives should remain strong during the summer but should not become more intense. Thus, prices of consumer durables will begin rising again following unanticipated declines in the spring. Prices of consumer nondurables have been slow to fall because gasoline prices have remained high. However, the gap between gasoline and oil is so large that price declines are likely. One concern is the possible introduction of excise taxes, which would have a one-time price effect when they develop, probably early next year. The slowing in consumer service prices is caused by reduced price pressures for housing and utilities, which are not completely offset by stronger medical and educational prices.

The rebound in construction prices is caused by supply problems associated with the spotted owl controversy. Despite this area of higher inflationary pressures, total inflation appears to be moderating slightly.

MISCELLANEOUS-Despite all the signs of weakness in April, the narrowing of the trade deficit that month suggests that real GNP grew slightly. Further gains are expected in May and June. As these gains are on top of an upward revision for first quarter activity, it now appears to real GNP will increase 1.8% during the second quarter. Much of this gain is in inventories, as the dollar value of inventory holdings are accelerating even as the inventory valuation is falling. Further inventory accumulations along with some gains in consumption should result in a strong summer before weakness reappears in the fall. The continued positive growth is based upon some easing in Federal Reserve policy. Without easing, a decline in economic activity is possible before next summer.

The leading indicators were stronger than expected, and clearly suggests some strengthening in the economy. Most of the weakness is concentrated in building materials while strength is widespread. The extended workweek overstated the strength during May, but some gains certainly should be expected.

When inventories pick up, the trade balances should deteriorate during the summer, but further gains are expected in the trade balances next year. The drop in both exports and imports during April is a statistical artifact and does not mean that export opportunities are exhausted.

If interest rates fall this summer, some weakness should develop in the dollar's value. However, further gains in the trade account and modest gains in profitability should attract enough capital to prevent any serious decline in the dollar.

FINANCIAL MARKETS

Clearly, the household sector has shifted savings desires. This normally leads to falling interest rates, but rates have not declined because of the shift in government borrowings. As explained above, the growing government deficit should not have a substantial impact upon interest rates because it reflects the public ownership of thrift assets rather than any increased use of resources in the economy. Only to the extent that this public ownership is viewed as preserving private wealth does this deficit have any effect upon the economy. Some economists would argue that even that is unlikely, as the potential tax liability to preserve that private wealth should offset the wealth. In that case, interest rates could actually fall as government deficits are rising. I do not believe that is the current case, but little upward pressure on interest rates should result from additional borrowings to support thrift depositors.

On the other hand, the corporate sector is increasing its borrowing needs as inventories shift from liquidation to accumulation and as capital spending continues to grow. Corporate earnings simply are not strong enough to provide the cash flow for these increased expenditures.

Thus, the household sector is trying to lower interest rates through increased savings and reduced housing purchases, but the government sector offsets this with increased borrowings. The corporate sector also is increasing its borrowings, causing the need for increased capital flows from abroad. Because foreigners have found alternatives in Eastern Europe, higher interest rates are needed to attract those foreign savings. Thus, interest rates have been drifting upward slightly.

During the summer, households may temporarily abandon their savings buildup while the corporate sector will continue to accumulate inventories. Government deficits should remain near current levels. This would suggest little change in interest rates. However, the Federal Reserve probably will lower its federal funds target. This would mean some reduction in short-term rates. Reduced inflation also may reduce the inflation premium demanded by investors for long term bonds. Therefore, interest rates are expected to fall slightly this summer.

Later this year the household sector should again rebuild savings while the corporate sector will be easing their investment programs. If the government sector can restrain deficit growth, as expected, some further reductions in interest rates are possible. Early next year, if a recession is avoided, interest rates should rise modestly. On balance, however, interest rates are expected to drift downward during the next twelve months.

EQUITY MARKETS-According to our formula, the summer rally is not over. Another 5% gain in equity values should be achieved by September. Weakness in corporate profitability, some increase in interest rates, and some weakness in the dollar should then cause a modest decline in stock prices during the fall. If monetary policy does not become more expansive, a more serious decline is likely. For that reason, bonds probably present more value than equities over the next twelve months. Nevertheless, a 5% gain during the next three months may be too much to leave on the table. Regional financial issues, some technology issues, and international companies again should provide most of the benefits. The oil service sector should stall, as oil prices fall, but may present value during the fall. Greater caution then is expected in equity investments after September, as a modest correction is expected.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
January 1990	109931		129.5		117863		5.3	9.83	
February	110304	3.1	130.2	3.0	118035	1.0	5.3	9.88	2.5
March	110427		130.3		118334		5.2	9.92	
April	110404		130.0		118116		5.4	9.95	
May	110568	1.2	130.0	0.0	118350	0.6	5.3	9.99	4.7
June	110673 *		130.0 *		118327 *		5.4 *	10.03 *	
July	110775		130.2		118389		5.4	10.06	
August	110839	1.2	130.2	0.7	118402	0.6	5.5	10.09	4.2
September	110993		130.3		118577		5.5	10.13	
October	111105		130.4		118708		5.5	10.16	
November	111284	1.5	130.6	1.1	118877	1.4	5.4	10.20	4.3
December	111426		130.8		119034		5.4	10.24	
January 1991	111543		130.9		119158		5.4	10.27	
February	111704	1.6	131.0	1.3	119307	1.5	5.5	10.31	4.2
March	111882		131.2		119487		5.5	10.34	
April	111994		131.3		119589		5.6	10.38	
May	112126	1.6	131.5	1.4	119714	1.4	5.6	10.41	4.2
June	112303		131.7		119907		5.6	10.45	
Chng June(91)/June(90)		1.5		1.3		1.3			4.2
Chng June(90)/June(89)		1.9		1.5		0.7			4.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	4.604		2.725		212.9		3.936		3.723	
February	4.638	9.5	2.748	6.9	229.8	31.8	3.965	10.1	3.735	9.0
March	4.675		2.764		251.7		3.998		3.747	
April	4.687		2.780		239.1		4.005		3.765	
May	4.701	5.7	2.791	6.9	247.6	19.2	4.013	5.1	3.766	4.2
June	4.723 *		2.804 *		238.9 *		4.030 *		3.791 *	
July	4.746		2.818		241.4		4.049		3.808	
August	4.766	5.6	2.828	5.5	235.2	-3.8	4.065	5.1	3.830	5.8
September	4.791		2.842		242.0		4.086		3.844	
October	4.814		2.855		244.0		4.105		3.861	
November	4.842	6.3	2.872	6.2	246.5	11.1	4.129	6.2	3.883	5.9
December	4.867		2.890		247.3		4.150		3.903	
January 1991	4.889		2.902		250.9		4.173		3.922	
February	4.916	6.3	2.918	6.4	252.6	11.8	4.195	6.6	3.942	6.3
March	4.940		2.932		255.2		4.216		3.961	
April	4.967		2.948		258.3		4.239		3.981	
May	4.992	6.5	2.962	6.5	258.9	11.4	4.259	6.4	4.000	6.1
June	5.021		2.980		262.3		4.283		4.021	
Chng June(91)/June(90)		6.3		6.3		9.8		6.3		6.1
Chng June(90)/June(89)		6.9		6.9		9.3		6.7		6.5

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	3618.0		504.6		1156.2		1957.1		2706.3	
February	3629.2	9.2	484.8	18.5	1176.0	9.4	1968.5	6.9	2706.8	2.4
March	3640.9		480.2		1172.5		1988.1		2699.7	
April	3659.8		488.8		1168.3		2002.8		2709.5	
May	3659.8	4.4	476.1	-6.1	1167.8	0.3	2015.9	9.6	2700.6	0.4
June	3685.2 *		481.9 *		1171.0 *		2032.3 *		2711.6 *	
July	3701.5		482.3		1173.6		2045.6		2716.2	
August	3723.5	5.9	489.3	3.4	1176.4	2.6	2057.8	8.4	2726.9	2.5
September	3737.4		487.3		1179.8		2070.4		2729.6	
October	3754.2		486.6		1184.0		2083.6		2731.1	
November	3775.5	6.0	490.9	3.2	1188.5	4.1	2096.2	7.7	2737.1	1.9
December	3795.5		492.8		1192.8		2109.8		2742.1	
January 1991	3814.7		495.7		1196.7		2122.3		2746.1	
February	3834.8	6.4	497.5	5.9	1201.4	4.3	2135.9	7.7	2751.5	2.0
March	3853.0		498.4		1205.2		2149.4		2753.5	
April	3872.6		501.1		1209.5		2162.0		2758.0	
May	3891.7	6.2	501.0	3.6	1214.4	4.5	2176.3	7.7	2760.8	1.6
June	3912.0		502.7		1219.5		2189.8		2765.9	
Chng June(91)/June(90)		6.2		4.3		4.1		7.7		2.0
Chng June(90)/June(89)		6.7		2.7		4.1		9.2		2.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	149.87		22.94		10.2		93.66		33.27	
February	149.91	11.4	23.63	16.0	9.5	54.3	94.87	8.9	31.41	15.0
March	149.30		23.18		9.5		94.64		31.48	
April	147.94		22.79		9.5		94.18		30.97	
May	146.84	-5.7	22.39	-11.6	9.3	-10.5	93.67	-1.9	30.78	-12.1
June	147.75 *		22.46 *		9.6 *		93.93 *		31.36 *	
July	148.00		22.43		9.6		94.14		31.43	
August	149.01	3.2	22.48	-2.1	10.2	22.9	94.36	1.9	32.17	11.4
September	149.05		22.37		10.1		94.63		32.05	
October	149.32		22.39		9.3		94.97		31.96	
November	150.15	3.8	22.45	0.2	9.5	-18.6	95.33	4.1	32.37	5.3
December	150.72		22.48		9.6		95.68		32.56	
January 1991	151.35		22.62		9.7		95.99		32.74	
February	151.93	4.9	22.53	2.5	9.9	16.4	96.37	4.3	33.03	8.3
March	152.33		22.59		9.9		96.67		33.07	
April	152.98		22.68		10.0		97.02		33.28	
May	153.36	4.2	22.61	1.7	10.0	7.0	97.41	4.5	33.34	4.9
June	153.96		22.73		10.0		97.82		33.41	
Chng June(91)/June(90)		4.2		1.2		4.2		4.1		6.5
Chng June(90)/June(89)		2.3		4.2		-2.0		3.6		0.1

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
January 1990	1.568		1.099		0.469		1.739	
February	1.488	35.6	1.154	44.4	0.334	13.6	1.297	12.7
March	1.307		0.996		0.311		1.232	
April	1.224		0.905		0.319		1.108	
May	1.207	-52.7	0.896	-52.8	0.311	-52.5	1.057	-66.9
June	1.187 *		0.892 *		0.295 *		1.073 *	
July	1.202		0.904		0.298		1.099	
August	1.223	3.8	0.917	6.5	0.306	-3.8	1.126	14.3
September	1.227		0.915		0.312		1.123	
October	1.238		0.923		0.315		1.127	
November	1.246	9.3	0.933	7.5	0.313	14.7	1.135	7.4
December	1.250		0.930		0.320		1.146	
January 1991	1.259		0.935		0.324		1.154	
February	1.267	6.2	0.939	4.1	0.328	12.8	1.166	9.7
March	1.265		0.940		0.325		1.168	
April	1.255		0.934		0.321		1.142	
May	1.269	0.5	0.943	0.4	0.326	0.8	1.152	-3.1
June	1.272		0.940		0.332		1.167	
Chng June(91)/June(90)		7.2		5.4		12.5		8.8
Chng June(90)/June(89)		-16.1		-8.1		-33.4		-18.9

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
January 1990	137.5		90.8		196.7		425.0		353.6	
February	143.6	13.2	95.5	18.3	199.3	21.4	438.4	18.1	362.9	17.4
March	141.5		90.8		203.3		435.6		361.2	
April	142.1		87.6		202.7		432.4		357.1	
May	141.6 *	3.3	88.0 *	-17.5	200.4 *	2.6	430.0 *	-1.7	354.2 *	-4.5
June	142.3		88.5		200.1		430.9		354.1	
July	141.7		88.2		199.7		429.6		352.7	
August	141.8	-1.1	89.6	4.6	199.3	-3.0	430.7	-0.9	353.0	-2.9
September	141.3		89.3		199.6		430.2		351.8	
October	142.0		89.7		199.8		431.5		352.0	
November	142.4	2.3	90.3	5.3	200.5	1.7	433.2	2.7	352.2	-0.5
December	142.8		90.6		200.9		434.3		351.9	
January 1991	143.2		91.1		201.2		435.5		351.8	
February	142.9	2.4	90.7	3.6	201.0	1.5	434.6	2.2	350.2	-1.3
March	143.6		91.2		201.3		436.1		350.6	
April	143.9		91.4		202.5		437.8		350.8	
May	144.4	3.1	91.6	3.0	202.9	3.4	438.9	3.2	350.8	-0.2
June	144.7		92.0		203.1		439.8		350.4	
Chng June(91)/June(90)		1.7		4.0		1.5		2.1		-1.0
Chng June(90)/June(89)		5.6		6.0		3.0		4.5		2.6

PROJ includes current information until the * and then projections by month thereafter
ARX is the annualized percentage change from the previous quarter.

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
January 1990	374.1		117.91		38.35		35.19	
February	373.2	1.2	120.78	-17.7	36.09	-12.5	36.83	20.5
March	371.7		128.87		40.89		36.15	
April	372.3		123.40		36.58		35.30	
May	372.7 *	-0.2	128.19	13.5	36.08	-17.6	35.20	-6.5
June	373.5		127.78 *		37.23 *		35.86 *	
July	374.6		128.43		37.51		35.98	
August	376.0	3.4	130.16	9.5	38.26	15.7	36.54	11.1
September	377.2		129.53		38.21		36.67	
October	378.5		127.86		37.88		36.27	
November	379.9	4.3	129.09	-1.0	38.29	3.3	36.42	1.8
December	381.2		130.15		38.73		36.98	
January 1991	382.5		130.87		39.06		37.24	
February	383.9	4.3	131.18	5.9	39.40	10.0	37.52	9.5
March	385.2		130.65		39.21		37.43	
April	386.7		130.54		39.54		37.95	
May	388.4	4.8	131.09	-0.8	39.73	4.0	38.13	7.1
June	390.0		130.25		39.55		38.05	
Chng June(91)/June(90)		4.4		1.9		6.2		6.1
Chng June(90)/June(89)		1.9		2.1		-4.9		3.2

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	ARX	Proj	ARX	Proj	ARX	Proj	ARX
January 1990	797.2		8.49		107.5		82.7	
February	794.0	-0.5	8.16	-19.7	108.5	0.9	83.2	-2.7
March	793.7		8.82		109.0		83.4	
April	794.5		8.82		109.0		83.3	
May	796.6 *	0.8	9.08	21.7	109.7	4.6	83.6	2.1
June	798.3		8.85 *		110.0 *		83.7 *	
July	800.9		8.81		110.3		83.8	
August	803.4	3.7	8.72	-2.7	110.6	3.6	83.9	1.6
September	806.8		9.04		110.7		83.9	
October	809.6		8.43		110.7		83.7	
November	812.5	4.4	8.67	-4.7	110.8	1.0	83.6	-1.3
December	815.3		9.15		110.9		83.5	
January 1991	818.6		8.68		111.1		83.5	
February	821.3	4.5	8.53	-5.5	111.3	1.6	83.5	-0.8
March	824.4		8.67		111.3		83.3	
April	827.1		8.65		111.2		83.0	
May	830.3	4.4	8.49	-1.8	111.0	-0.7	82.6	-3.8
June	833.6		8.62		110.9		82.3	
Chng June(91)/June(90)		4.4		-2.6		0.8		-1.7
Chng June(90)/June(89)		2.2		-4.1		1.5		-1.0

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ARX is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	127.7		117.6		114.2		129.1	
February	128.4	8.5	117.3	8.2	113.6	5.1	129.4	5.4
March	129.0		117.0		113.2		130.1	
April	129.3		116.6		113.1		130.3	
May	129.6	4.0	117.0	-1.0	113.7	-0.2	130.8	3.9
June	130.0 *		117.4 *		114.0 *		131.1	
July	130.2		117.6		114.3		131.5	
August	130.5	2.8	117.6	2.2	114.6	2.1	131.7	3.2
September	130.9		117.7		113.7		132.1	
October	131.4		118.0		114.7		132.6	
November	131.9	4.3	118.4	2.6	115.0	3.0	133.1	4.0
December	132.4		118.8		115.4		133.5	
January 1991	132.9		119.2		115.7		134.0	
February	133.4	4.6	119.6	4.1	116.0	3.4	134.4	4.3
March	133.9		120.0		116.3		135.0	
April	134.4		120.3		116.6		135.4	
May	134.9	4.6	120.7	3.7	116.9	3.1	135.9	4.4
June	135.4		121.1		117.2		136.4	
Chng June(91)/June(90)		4.2		3.2		2.8		4.0
Chng June(90)/June(89)		4.8		2.7		1.4		4.2

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	133.7		113.0		127.1		145.0		120.2	
February	134.1	7.5	112.7	3.9	127.8	13.3	145.1	5.5	120.8	0.7
March	134.9		112.6		128.9		145.8		120.6	
April	135.1		112.4		129.2		146.1		121.1	
May	135.5	3.8	112.4	-1.0	129.4	4.5	146.7	3.9	121.4 *	2.9
June	135.9 *		112.7 *		129.5 *		147.3 *		121.7	
July	136.3		113.0		129.5		147.9		121.8	
August	136.5	3.3	113.2	2.7	129.7	1.0	148.3	4.5	122.0	2.1
September	136.9		113.5		129.8		148.8		122.3	
October	137.5		113.7		130.2		149.5		122.6	
November	137.9	4.0	114.0	2.6	130.6	2.9	150.1	4.8	123.0	3.2
December	138.4		114.2		131.0		150.7		123.4	
January 1991	138.9		114.4		131.5		151.3		123.8	
February	139.4	4.3	114.5	2.0	131.9	4.3	151.9	4.9	124.1	3.6
March	139.9		114.7		132.5		152.5		124.4	
April	140.4		115.0		132.9		153.1		124.8	
May	141.0	4.5	115.3	2.6	133.4	4.3	153.7	4.8	125.1	3.4
June	141.4		115.5		133.8		154.3		125.5	
Chng June(91)/June(90)		4.1		2.5		3.3		4.8		3.1
Chng June(91)/June(90)		4.5		1.6		5.0		4.7		1.8

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
January 1990	-9.32		145.3		5398		4181		-14.6
February	-6.10	49.0	143.8	0.3	5429	7.1	4193	1.9	-12.2
March	-8.36		145.2		5473		4206		-10.1
April	-6.94		145.1		5487		4208		-8.6
May	-7.30 *	28.6	146.2	3.1	5510	5.7	4212	1.8	-7.3
June	-7.62		146.3 *		5530		4215		-6.4
July	-8.04		146.5		5560		4227		-8.3
August	-7.83	-37.5	146.8	2.0	5590	5.9	4241	2.7	-9.7
September	-7.80		146.5		5617		4250		-8.6
October	-8.21		146.1		5634		4247		-10.3
November	-7.94	13.5	146.6	-0.4	5656	5.1	4249	1.1	-11.9
December	-6.68		146.7		5687		4257		-12.2
January 1991	-7.81		146.9		5714		4262		-14.3
February	-7.01	17.6	147.3	1.6	5739	5.8	4267	1.5	-12.6
March	-6.93		147.0		5767		4271		-11.9
April	-6.81		146.6		5793		4276		-12.8
May	-6.70	23.2	146.8	-1.0	5820	5.6	4280	1.2	-14.3
June	-6.85		146.7		5844		4283		-13.6
Chng June(91)/June(90)		10.1		0.3		5.7		1.6	
Chng June(90)/June(89)		10.3		1.6		5.9		1.9	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	93.00		156.7		8.26		187.96	
February	92.25	-16.0	164.9	-8.9	8.50	28.1	182.55	-13.0
March	94.11		173.4		8.56		186.26	
April	93.51		165.6		8.76		185.61	
May	92.04	-2.2	166.9	3.1	8.83	12.0	191.08	11.6
June	92.29 *		166.3		8.46 *		195.52 *	
July	92.17		169.5		8.42		200.23	
August	91.16	-5.7	170.6	11.8	8.53	-12.1	198.93	26.6
September	90.47		172.8		8.27		207.83	
October	89.98		167.8		8.33		200.36	
November	90.71	-3.2	166.5	-5.6	8.30	-3.6	199.53	-2.2
December	90.88		171.2		8.36		203.69	
January 1991	90.53		170.5		8.53		198.81	
February	91.16	2.5	169.8	3.2	8.41	7.1	200.52	-3.6
March	91.58		169.2		8.48		198.46	
April	92.27		170.3		8.43		200.94	
May	92.18	5.4	168.8	-1.9	8.36	-5.4	200.83	3.6
June	92.43		167.9		8.28		201.69	
Chng June(91)/June(90)		0.2		1.0		-2.1		3.2
Chng June(90)/June(89)		-10.5		-3.5		2.3		8.2

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	298.2		794.8		3229.3		8.23		7.55	
February	300.1	8.7	801.4	4.9	3252.4	6.2	8.24	-15.8	7.70	10.5
March	303.3		804.8		3266.2		8.28		7.85	
April	304.8		807.4		3271.5		8.26		7.84	
May	305.7	7.2	805.8	3.5	3264.2	2.3	8.18	-0.8	7.76	2.6
June	307.0 *		808.4 *		3268.9 *		8.26 *		7.65 *	
July	308.6		812.5		3282.0		8.12		7.60	
August	310.1	5.7	816.8	4.7	3299.3	3.7	7.93	-13.7	7.53	-12.1
September	311.5		820.2		3313.1		7.76		7.38	
October	313.0		823.5		3328.4		7.79		7.35	
November	314.6	5.9	827.4	5.4	3344.2	5.7	7.88	-4.8	7.42	-5.9
December	316.0		831.1		3359.1		7.85		7.40	
January 1991	317.5		834.7		3372.7		7.96		7.49	
February	319.1	5.9	838.6	5.5	3385.4	5.1	8.02	9.1	7.56	8.9
March	320.6		842.2		3400.0		8.06		7.60	
April	322.0		845.6		3413.7		8.01		7.55	
May	323.6	5.7	849.5	5.3	3425.4	4.8	8.04	2.2	7.58	3.8
June	325.0		852.8		3438.7		8.12		7.73	
Chng June(91)/June(90)		5.9		5.5		5.2		-1.7		1.0
Chng June(90)/June(89)		5.9		4.5		5.4		-13.3		-3.5

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	8.99		7.10		8.20		8.10		10.11	
February	9.22	14.4	7.22	5.2	8.14	-8.5	8.22	-9.7	10.00	-16.5
March	9.37		7.29		8.28		8.35		10.00	
April	9.46		7.44		8.30		8.42		10.00	
May	9.47	9.0	7.35	8.2	8.25	1.5	8.35	5.8	10.00	-1.5
June	9.25 *		7.25 *		8.16 *		8.25 *		10.00 *	
July	9.33		7.31		8.08		8.16		10.00	
August	9.44	-1.8	7.39	-1.4	7.96	-12.8	8.09	-12.5	10.00	-4.8
September	9.28		7.26		7.84		7.95		9.63	
October	9.33		7.30		7.83		7.93		9.50	
November	9.26	-2.1	7.24	-2.3	7.95	-1.0	8.06	-1.2	9.50	-9.7
December	9.31		7.29		8.04		8.14		9.88	
January 1991	9.47		7.41		8.01		8.11		10.00	
February	9.35	4.5	7.33	5.0	8.03	4.8	8.14	4.9	10.00	16.4
March	9.39		7.36		8.06		8.17		10.00	
April	9.31		7.30		8.01		8.12		10.00	
May	9.23	-7.2	7.22	-7.7	7.97	-3.1	8.08	-2.8	10.00	0.0
June	9.15		7.14		7.93		8.05		10.00	
Chng June(91)/June(90)		-1.1		-1.5		-2.8		-2.4		0.0
Chng June(90)/June(89)		1.6		3.3		-14.4		-10.3		-9.7

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
July 1990

Dr. Donald Ratajczak, Director
For Release: Friday, August 3, 1990

ANOTHER OIL SHOCK!

Iraq's invasion of Kuwait has created the specter of yet another oil shock. By itself, the 1.5 million barrels daily produced by Kuwait would not have a substantial impact upon world supplies. However, some disruptions of supply from the Persian Gulf probably will occur. Also, the message sent by this invasion almost certainly will cause the United Arab Emirates to produce at or below their OPEC quota. When the dust settles, less oil will be produced from the Persian Gulf than in the absence of the invasion. This will raise oil prices. Such price increases, in turn, will have an initial impact upon raising inflation measures in the United States. However, the reduced purchasing power created by the oil price increase will reduce economic activity, leading to a reversal of the price increases in the absence of changes in macroeconomic policy.

All of this has been observed before. Previous oil shocks have led to rising inflationary measures followed by recessionary behavior. Moreover, the increase in oil prices led to reduced economic activity worldwide, which subsequently reduced inflation in the absence of accommodating macroeconomic policies.

What needs to be emphasized, however, is the likely magnitude of this oil shock. After the war induced disruptions, Kuwait will again provide oil in accordance with its OPEC quota. The U.A.E. also will produce to quota. The next result will be a drop of only a few hundred thousand barrels per day. Even with relatively low short-term price elasticities, prices in excess of the $21 per barrel in the Persian Gulf are not likely at this level of supply. This is the equivalent of $22.5 per barrel in the United States. Thus, the price increase is about $4.50 per barrel. About half those barrels come from abroad.

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Therefore, about $11 billion of purchasing power will be lost to the United States. Also, an additional $11 billion will flow from households and other corporations to oil producers in this country.

Gasoline prices should increase about 5 to 6 cents per gallon. The consumer price index initially should increase about 0.3-0.5% As the economy weakens, some of this price gain will be reversed in the absence of accommodating macroeconomic activity. Thus, the economy will probably slow its rate of growth by about 0.5%. Since our projections excluding an oil shock are for gains of only 1%, this will place the economy dangerously close to a recession.

However, even the possible economic downturn should be mild. No decline in economic activity for the year is expected. Moreover, the inflationary surge should be short-lived. By the end of next year, the weakened economy should be generating inflationary pressures of less than 4%.

Nevertheless, the initial surge in inflation probably will cause interest rates to rise. As the Federal Reserve is unlikely to allow short-term interest rates to rise, the long-term rates will increase about 0.3-0.5% from where they otherwise would be. The yield curve will steepen.

These oil shock problems are occurring when revised GNP data show the economy already is dangerously close to recession. During the second quarter, when economic activity increased 1.2%, activity would have fallen 2.2% except for inventory building, including the commodity inventories acquired by the government. Further inventory building can be expected during the third quarter, as auto producers maintain production during contract negotiations. However, reduced production during the fourth quarter to eliminate inventories could lead to economic decline.

Also, the three year data revisions sharply reduced the spending capacity of households. The savings rate was reduced from 5.6% to 4.9% for the first quarter, as wage earnings were chopped by nearly $94 billion. Although spending also was cut by $57 billion, the reductions were in services. This suggests that the demand for services is slowing under the weight of higher prices and reduced purchasing power. As a result, the consumer may not be able to sustain spending in the absence of significant gains in purchasing power.

Yet, the administration and the Congress appear to be pursuing programs to raise excise taxes. Thus, higher prices for alcohol, tobacco products and energy products should further restrict the purchasing power of households. Such a deficit reduction package could add its own modest supply side shock to the impact of the minor oil shock. Therefore, higher prices and lower economic activity may develop as early as the fourth quarter.

nthly Statistical Highlights

	JULY 1990	AUGUST 1990	SEPTEMBER 1990
ayroll Employment		+89,000	+130,000
ndex of Hours Worked		+0.1%	+0.1%
ousehold Employment		+60,000	+97,000
ivilian Unemployment Rate		5.4%	5.4%
ersonal Income	+0.4%	+0.4%	+0.4%
avings Rate	5.0%	4.7%	4.8%
ersonal Consumption	+0.3%	+0.7%	+0.3%
etail Sales	+0.4%	+0.9%	-0.1%
uto Sales	9.8*	10.4*	10.2*
ousing Starts	+1.8%	+1.3%	+0.2%
ousing Permits	-0.8%	+0.5%	+1.3%
onstruction Expenditures	-0.4%	+0.4%	-0.1%
usiness Inventories	+0.3%	+0.2%	+0.5%
rders for Durable Goods	+1.3%	+1.5%	+0.1%
rders - Nondefense Capital Goods	-1.0%	+1.2%	+0.7%
ndustrial Production	+0.2%	+0.2%	+0.1%
PI	+0.2%	+0.3%	+0.3%
PI	+0.1%	+0.3%	+0.3%
onsumption Deflator	+0.4%	+0.3%	+0.3%
eading Indicators	+0.2%	+0.1%	-0.1%
urrency Index	-2.3%	-2.0%	-1.6%
quity Index		+2.2%	+2.6%
eal GNP (annual rate)	+1.7%	+1.7%	+1.2%
1 (annual rate)	+1.9%	+4.1%	+5.8%
2 (annual rate)	+2.3%	+3.5%	+5.7%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Although an 80,000 reduction in Census workers held down payroll employment for June, household employment also grew an anemic 39,000. The index of hours worked was up a modest 0.7% for the spring. The June dip in unemployment means little, as changes in the participation rates of school age people distorts this measure every June. A return to more normal labor force patterns should develop later in the summer, thereby raising unemployment rates again. Nevertheless, the 1.2% gain in real economic activity during the past four quarters should have created more unemployment than it did. Weakness in labor force growth has been responsible for containing the rise of unemployment. However, such moderation in labor force expansion should not persist during the next year.

Hourly earnings accelerated during the second quarter, although gains in steel and auto employment may be generating shifts that account for this performance. Further strength in hourly earnings is possible during the summer, as auto plants remain open. The employment cost index indicated that hourly earnings rose 4.5% from the previous year, the highest gain since early in this cycle.

PERSONAL INCOME AND OUTLAYS-Reduced farm subsidies slowed the growth of personal income during the second quarter. However, wage earnings increased slightly faster than earlier in the year. Despite an acceleration in tax liabilities, savings were able to expand because of sluggish spending. However, previous revisions in wage incomes shows that savings remain at a low 5% of disposable income. Further gains in savings rates would not be unusual in the current economic environment.

Outlays slowed sharply despite unusually strong gains in services because of a rebound in utility purchases following a mild winter. Auto sales fell, with dollar values following even more sharply than unit sales, as dealers provided substantial incentives to reduce their lots. Even with slowing price gains, nondurables continued to slide. Because of weakness both in durables and nondurables, retail sales fell sharply during the spring. A rebound in June should permit some gains in retail activity during the summer. Also, nondurables should rebound then. The summer surge in auto sales preceding the introduction of high priced models should temporarily raise retail activity, but durables other than autos should continue to sag.

CONSTRUCTION-Sales of single family homes spurted an unexpected 8% during June, but most of the strength was concentrated in the northeast. A modest rebound was expected because of more favorable weather. However, few builders reported increased sales activity. Nevertheless, building permits rose in June, although most of the gain was in multi-family permits. This suggests that the slump in housing activity may be coming to an end. Lower mortgage rates may be offsetting reduced expected incomes in generating further housing sales. Nevertheless, any rebound should be gradual.

The modest rebound in housing should not restore gains in residential construction until later this year. In fact, orders for construction goods are down 8% for the first half of the year. This would normally indicate a decline in construction activity until early next year. Because of the revisions in data, no estimates have been made for changes in construction during the first quarter (previous year data were not available on a monthly basis at the time of this report). However, some of the second quarter weakness clearly reflects the shifting weather patterns. The dip following hurricane and earthquake repairs in the public construction sector should be over. More orderly gains in public construction now are expected. Nonresidential construction also should rebound with the aid of industrial structures. However, the gains during the next twelve months are not expected to be significant. Indeed, inflation adjusted construction should continue to decline into next year.

Shifting composition was responsible for the unusually low gain in the construction deflator during the spring. More normal spending composition should permit the deflator to grow slightly more than 3% during the next twelve months. While this is stronger than in the previous year, the rate of inflation still is not cause for concern in construction.

BUSINESS ACTIVITY-Despite attempts by the auto industry to build up inventory ahead of labor negotiations, manufacturing inventory actually declined during the second quarter. Some of this was the result of price declines for some manufactured goods, as reflected by the shift in the inventory evaluation adjustment. According to our estimates, the IVA actually turned positive in May and should remain positive until higher oil prices reverse inventory costs in August. Also, retail and wholesale inventories began to surge even if manufacturing warehouses remained lean. Some of these inventory gains may have been unwanted because of the weakness in sales. As a result, orders may weaken during the summer. However, the auto build-up should mask this weakness until the fall.

Because of possible unwanted inventories, orders for nondefense capital goods should continue to weaken. Moreover, the rebound in durable goods orders merely reflects the impact from higher shipments of transportation equipment and a rebound from unusually low military orders during the latest month. Shipments currently exceed orders, causing backlogs to decline. This normally occurs about six months prior to a decline in production. Thus, weakness in industrial production during the fall is consistent with this reduction of backlogs.

Strong gains in industrial production should persist through the summer as auto activity leads to the assembly of more than 8 million cars at annual rates. A sharp decline in auto activity then is expected in the fall. The decline in orders could lead to falling industrial production at that time, especially if higher oil prices begin to slow the expansion of activity in Europe and Asia. Because of the temporary nature of the production spurt this spring and summer, the gains in capacity utilization should have little impact upon new orders for capital equipment.

PRICES-Higher oil prices should not be apparent until the September inflation measures. Therefore, inflation should slow modestly during the summer. Stronger housing costs are reflected in an acceleration of the service deflator. Most of those higher housing costs reflect higher property taxes, and really do not reflect a stronger inflationary surge in the service economy. However, the spring discounting in auto prices already is giving way to higher summer prices. Further price gains are expected in the fall. No surge is expected in inflation measures, and the CPI should increase less during the next twelve months than in the past. Nevertheless, any easing of inflationary measures should be temporary.

The GNP deflator should increase more slowly during the summer, as a sharp dip in import prices distorted the deflator to a higher value in the spring. This occurs because import prices detract from GNP. At the same time, the investment and inventory pricing of commodities is based upon domestic prices. Therefore, imported goods in inventory that arrive at a reduced price actually raise the deflator until those goods are appropriately reflected at the finished goods level. Therefore, the deflator should grow more slowly in the summer before rebounding slightly in the fall (rising oil prices will initially restrain the growth of the deflator) and in the winter. Thus, the summer surge in energy prices will not be fully reflected in the GNP deflator until the winter.

MISCELLANEOUS-Auto production is primarily responsible for the rebound in GNP during the summer. Although modest positive gains currently are projected for the fall, more modest gains in consumer incomes and a slightly larger inflation rate than currently projected could convert those gains into a decline. Then, investment spending would weaken more sharply in the winter, possibly generating a recession that would start this fall and last through the middle of next year.

The leading indicators do not show the risk of weakness. Rising sensitive prices and some increase in delivery delays account for some of this strong gain. However, consumer confidence has eroded, housing permits remain weak (though they rebounded last month), the money stock is declining after adjustment for price changes, and orders are beginning to weaken.

Although trade deficits deteriorated last month, American manufacturers remain competitive and exports continue to grow. Unfortunately, higher oil prices will prevent the deficit from declining significantly during the next few months. Nevertheless, modest gains in the trade deficit are expected into next year.

Because of the decline in inventory prices, tax distortions of corporate profits lessened during the spring. Weak economic activity prevented profits from rising, but the decline in profits was much less than would normally be expected by this sluggish economy. Falling interest rates and continued moderation in wage gains should continue to limit the downside plunge in profits. If this holds, equity values may actually rise slightly during a time of economic turmoil. However, the rising fear of recession and the oil shock could prematurely end the summer rally. I would be taking profits at this time to avoid some of the uncertainties that currently prevail.

Rising oil prices could help the dollar temporarily as oil is paid in dollars. However, recessionary fears and rising interest rates abroad should do more to harm the dollar's value during the summer than the petroleum demand for dollars should help it. The dollar may then rally modestly during the fall, after the mark reaches 1.55 to the dollar and the yen rises to 140 to the dollar.

FINANCIAL MARKETS

The dollar's plunge against other currencies has adversely affected capital flows into the United States. Once the dollar reaches a lower level as stated above, some foreign capital may gradually flow back into this country. However, interest rate pressures could be intense in the absence of reduced investment or increased savings domestically.

Unfortunately, the government's attempt to reduce the deficit is being overtaken by events. While a substantial deficit reduction package still is possible, signs of weakening economic activity reduces the urgency of raising taxes to solve the deficit problem. Certainly, government borrowings will fall from the $168 billion during the winter, by next winter. But the decline will be gradual. Further borrowings to reduce the thrift problem could actually generate borrowings in excess of $200 billion early in 1991. Thus, the government will be increasing its need for funds until the middle of 1991.

Household savings should fall in the summer and rebound in the fall. Housing activity should gradually improve. This means that net savings provided by the household sector to the credit markets will decline in the summer, plateau in the fall and gradually improve thereafter. At best, this will merely offset the increased borrowings from the government.

Corporate borrowings have eased slightly in the summer because of reduced commodity prices. By the fall, however, higher inventory borrowings should more than offset moderation in capital spending. Also, cash flow should deteriorate, following a modest gain during the summer. Thus, the corporate sector reduced its demand for funds in the summer but should be increasing them slightly in the fall, before falling capital and inventory investment outstrip weakening cash flow positions in the winter.

Together, this analysis suggests that interest rates can fall modestly during the summer and may plateau in the fall and winter before falling again next spring. However, any interest rate declines should not be substantial.

EQUITY MARKETS-Is the summer rally over? Fears of another oil shock suggest that it is. Also, the dollar's weakness indicates that foreign investors will be reluctant to invest in our assets. However, our formula suggests that further gains are possible. Even if a further rebound in equity values develops in August and September, profit taking clearly is recommended. Equity values should not continue to rise beyond that period. Once the oil situation is clarified, purchases of bonds may outperform stock purchases. Fears of real estate problems should continue to restrict the performance of bank stocks into next year. European related companies still look promising, but slow profit growth suggests that more negative than positive earnings surprises are likely. Therefore, the growth oriented stocks probably should be sold to raise cash. Only the oil service companies and companies related to the oil patch look interesting at this time. Even there, the rebound in oil prices should not be sufficient to substantially raise opportunities. High grade bonds and money market investments probably hold the greatest promise until the recession fears have been quantified.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian = Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
January 1990	109931		129.5		117863		5.3	9.83	
February	110304	3.1	130.2	3.0	118035	1.0	5.3	9.88	2.5
March	110427		130.3		118334		5.2	9.92	
April	110401		130.0		118116		5.4	9.95	
May	110757	1.6	130.2	0.7	118350	0.7	5.3	9.98	4.3
June	110797		130.5		118389		5.2	10.01	
July	110883 *		130.6 *		118438 *		5.4 *	10.04 *	
August	110972	1.2	130.7	1.4	118498	0.8	5.4	10.07	3.7
September	111102		130.8		118595		5.4	10.10	
October	111196		130.9		118671		5.5	10.14	
November	111284	1.1	130.9	0.7	118727	0.8	5.5	10.17	4.0
December	111418		131.0		118823		5.5	10.20	
January 1991	111553		131.2		118947		5.4	10.24	
February	111673	1.4	131.3	1.2	119027	1.0	5.4	10.27	4.1
March	111809		131.5		119147		5.4	10.31	
April	111937		131.6		119261		5.4	10.35	
May	112052	1.3	131.7	1.0	119354	1.1	5.4	10.38	4.4
June	112167		131.7		119482		5.4	10.42	
Chng June(91)/June(90)		1.2		0.9		0.9			4.1
Chng June(90)/June(89)		2.0		1.9		0.7			4.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	4.532		2.633		173.9		3.861		3.687	
February	4.562	8.7	2.652	6.1	191.1	45.8	3.886	9.6	3.695	8.1
March	4.595		2.669		209.0		3.916		3.707	
April	4.608		2.682		199.7		3.916		3.716	
May	4.623	5.4	2.692	6.4	210.2	22.2	3.928	4.4	3.717	3.5
June	4.640		2.705		193.6		3.946		3.752	
July	4.659 *		2.715 *		197.4 *		3.962 *		3.765 *	
August	4.679	4.9	2.725	4.9	186.7	-16.1	3.977	4.9	3.790	6.3
September	4.700		2.736		193.5		3.994		3.801	
October	4.726		2.751		201.6		4.016		3.814	
November	4.747	6.0	2.760	5.3	195.8	10.1	4.032	5.7	3.836	5.4
December	4.770		2.772		194.2		4.051		3.857	
January 1991	4.795		2.788		203.7		4.077		3.873	
February	4.818	6.2	2.800	6.0	206.7	21.4	4.097	6.6	3.890	5.9
March	4.845		2.816		210.6		4.120		3.909	
April	4.870		2.831		212.4		4.140		3.928	
May	4.890	6.1	2.842	6.0	211.1	7.1	4.156	5.8	3.945	5.8
June	4.912		2.855		208.3		4.173		3.965	
Chng June(91)/June(90)		5.9		5.5		7.6		5.8		5.7
Chng June(90)/June(89)		6.1		5.4		7.4		6.1		6.0

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	3579.1		506.6		1163.3		1909.2		2681.9	
February	3586.6	8.1	487.3	18.9	1182.2	9.3	1917.1	4.9	2677.3	2.4
March	3598.5		482.4		1178.6		1937.5		2672.8	
April	3607.2		480.6		1174.3		1952.3		2675.1	
May	3608.5	3.6	474.4	-9.8	1166.0	-1.1	1968.1	10.2	2667.8	-0.3
June	3642.9		483.9		1174.2		1984.8		2682.5	
July	3655.1 *		483.3 *		1177.2 *		1994.6 *		2681.5 *	
August	3680.4	6.3	492.6	7.7	1180.2	2.8	2007.6	8.1	2693.0	2.1
September	3690.4		490.0		1181.9		2018.5		2691.8	
October	3704.0		487.2		1185.5		2031.3		2691.0	
November	3725.4	5.5	490.3	1.3	1190.7	3.7	2044.3	7.7	2697.7	1.4
December	3745.6		493.0		1195.5		2057.2		2704.8	
January 1991	3761.8		493.2		1198.8		2069.8		2707.3	
February	3778.4	5.9	492.6	2.7	1203.7	4.3	2082.1	7.7	2709.9	1.9
March	3797.1		494.5		1207.4		2095.2		2713.7	
April	3815.0		496.4		1210.0		2108.6		2717.5	
May	3831.8	5.8	498.5	4.3	1212.9	3.3	2120.4	7.6	2721.1	1.6
June	3850.8		501.1		1216.1		2133.6		2725.1	
Chng June(91)/June(90)		5.7		3.6		3.6		7.5		1.6
Chng June(90)/June(89)		6.0		2.4		3.9		8.3		2.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	149.87		22.94		10.2		93.66		33.27	
February	149.91	11.4	23.63	16.0	9.5	54.3	94.87	8.9	31.41	15.0
March	149.30		23.18		9.5		94.64		31.48	
April	147.89		22.78		9.5		94.27		30.84	
May	147.04	-5.5	22.66	-9.7	9.3	-10.5	93.60	-1.2	30.78	-14.6
June	147.82		22.56		9.6		94.45		30.81	
July	148.46 *		22.51 *		9.8 *		94.69 *		31.26 *	
August	149.73	4.6	22.55	-2.7	10.4	31.3	94.93	3.4	32.25	14.2
September	149.58		22.48		10.2		95.07		32.03	
October	149.56		22.53		9.3		95.36		31.67	
November	150.33	2.8	22.59	1.7	9.5	-23.8	95.78	3.7	31.96	0.9
December	151.00		22.71		9.6		96.16		32.13	
January 1991	151.30		22.56		9.7		96.43		32.31	
February	151.62	3.7	22.61	-0.1	9.6	8.7	96.82	4.3	32.19	4.7
March	152.13		22.64		9.7		97.12		32.37	
April	152.55		22.69		9.8		97.33		32.53	
May	153.02	3.6	22.75	2.6	9.9	10.0	97.56	3.3	32.71	5.6
June	153.57		22.80		10.0		97.82		32.95	
Chng June(91)/June(90)		3.9		1.1		4.2		3.6		6.9
Chng June(90)/June(89)		2.4		0.5		-2.0		4.2		-1.7

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ARX is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	1.568		1.099		0.469		1.739	
February	1.488	35.6	1.154	44.4	0.334	13.6	1.297	12.7
March	1.307		0.996		0.311		1.232	
April	1.216		0.898		0.318		1.108	
May	1.205	-53.8	0.893	-53.5	0.312	-54.5	1.065	-65.1
June	1.177		0.892		0.285		1.107	
July	1.198 *		0.895 *		0.303 *		1.096 *	
August	1.213	3.3	0.906	2.9	0.307	4.4	1.102	4.2
September	1.216		0.901		0.315		1.116	
October	1.225		0.913		0.312		1.125	
November	1.230	5.6	0.915	5.7	0.315	5.3	1.121	8.0
December	1.222		0.912		0.310		1.132	
January 1991	1.229		0.916		0.313		1.138	
February	1.243	4.0	0.925	3.3	0.318	6.1	1.144	4.3
March	1.241		0.921		0.320		1.132	
April	1.243		0.926		0.317		1.139	
May	1.257	6.2	0.935	6.2	0.322	6.0	1.148	3.0
June	1.269		0.943		0.326		1.152	
Chng June(91)/June(90)		7.8		5.7		14.4		4.1
Chng June(90)/June(89)		-16.8		-8.1		-35.7		-16.3

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	138.0		107.9		200.1		446.0		408.3	
February	140.1		112.5		203.0		455.6		415.9	
March	140.5		109.9		206.9		457.3		416.5	
April	138.6		104.5		204.1		447.2		407.7	
May	136.9	-5.2	109.1	-8.3	199.7	-4.6	445.6	-5.7	405.4	-7.2
June	137.5 *		109.6 *		199.1 *		446.2 *		404.5 *	
July	137.3		109.3		197.8		444.4		401.8	
August	138.2	1.1	110.2	9.5	197.9	-6.9	446.3	-0.6	402.4	-3.9
September	138.6		111.1		196.5		446.2		401.3	
October	138.3		110.5		196.8		445.6		399.6	
November	138.9	2.4	111.4	3.8	198.3	1.2	448.6	2.2	401.3	-1.1
December	139.4		111.8		198.8		450.0		401.4	
January 1991	139.0		112.3		199.5		450.8		401.1	
February	139.4	0.5	112.0	3.4	200.5	4.2	451.9	2.9	401.0	-0.4
March	138.7		112.2		200.1		451.0		399.1	
April	139.3		112.4		200.9		452.6		399.5	
May	139.6	1.8	112.7	1.8	201.5	2.7	453.8	2.2	399.5	-1.0
June	140.1		112.9		201.7		454.7		399.2	
Chng June(91)/June(90)		1.9		3.0		1.3		1.9		-1.3
Chng June(90)/June(89)										

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AR% is the annualized percentage change from the previous quarter.

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	374.1		117.91		38.35		35.19	
February	373.2	1.2	120.78	-17.7	36.09	-12.5	36.83	20.5
March	371.7		128.87		40.89		36.15	
April	372.3		123.61		36.57		35.30	
May	372.4	-0.7	128.83	10.8	36.06	-20.8	35.40	-3.3
June	372.4 *		124.69		36.16		36.58	
July	373.1		126.27 *		35.81 *		36.68 *	
August	374.6	2.4	128.14	6.0	36.24	-0.8	36.43	8.9
September	376.1		128.23		36.51		36.49	
October	377.0		126.69		35.82		36.41	
November	377.9	3.8	128.42	2.2	36.48	2.5	36.73	1.6
December	379.3		129.66		36.93		36.89	
January 1991	380.8		129.21		37.15		37.03	
February	382.1	4.5	129.84	3.3	37.45	9.3	37.11	4.2
March	383.8		128.85		37.08		37.02	
April	384.9		129.26		37.81		37.46	
May	386.4	4.5	127.43	-2.4	36.51	-2.4	37.28	2.9
June	388.1		128.82		36.69		37.21	
Chng June(91)/June(90)		4.2		3.2		1.5		1.7
Chng June(90)/June(89)		1.6		0.4		-5.9		5.6

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	797.2		8.49		107.5		82.7	
February	794.0	-0.5	8.16	-19.7	108.5	0.9	83.2	-1.7
March	793.7		8.82		108.9		83.4	
April	796.1		8.92		108.7		83.0	
May	799.4	1.9	9.18	29.3	109.3	3.6	83.3	0.8
June	800.6 *		9.06		109.8		83.5	
July	802.9		8.85 *		110.0 *		83.5 *	
August	804.8	3.5	8.93	-3.5	110.2	3.3	83.5	1.0
September	809.2		9.14		110.3		83.4	
October	811.2		8.57		110.2		83.1	
November	813.4	3.8	8.66	-8.2	110.1	0.1	82.8	-2.7
December	814.9		9.12		110.3		82.8	
January 1991	817.2		8.71		110.5		82.8	
February	820.5	3.6	8.59	-5.2	110.7	1.6	82.8	-0.8
March	823.6		8.70		110.7		82.6	
April	825.9		8.62		110.6		82.3	
May	828.6	4.2	8.59	-0.9	110.7	0.2	82.2	-2.6
June	832.3		8.73		110.8		82.1	
Chng June(91)/June(90)		4.0		-3.6		0.9		-1.7
Chng June(90)/June(89)		2.3		1.2		1.2		-1.3

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ARX is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted) Proj	CPI-U (seasonally adjusted) AR%	PPI Finished Goods (seasonally adjusted) Proj	PPI Finished Goods (seasonally adjusted) AR%	PPI-Industrial Commodities (unadjusted) Proj	PPI-Industrial Commodities (unadjusted) AR%	Estimated GNP Deflator Proj	Estimated GNP Deflator AR%
January 1990	127.7		117.6		114.2		129.1	
February	128.4	8.5	117.3	8.2	113.6	5.1	129.5	4.8
March	129.0		117.0		113.2		130.1	
April	129.3		116.6		113.1		130.5	
May	129.6	4.2	117.0	-1.2	113.7	-0.2	130.9	4.4
June	130.2		117.2		114.0		131.5	
July	130.5 *		117.3 *		114.3 *		131.7	
August	130.9	3.8	117.6	2.3	114.6	2.1	132.1	3.6
September	131.3		117.9		113.7		132.5	
October	131.8		118.2		114.7		133.0	
November	132.3	4.2	118.5	3.1	115.0	3.0	133.5	4.1
December	132.7		118.8		115.4		133.8	
January 1991	133.2		119.2		115.7		134.3	
February	133.7	4.4	119.5	3.4	116.0	3.4	134.7	4.0
March	134.2		119.8		116.3		135.2	
April	134.6		120.1		116.6		135.7	
May	135.1	4.2	120.3	2.8	116.9	3.1	136.1	4.1
June	135.5		120.6		117.2		136.6	
Chng June(91)/June(90)		4.1		2.9		2.8		3.9
Chng June(90)/June(89)		4.8		2.7		1.4		4.2

	Consumption Deflator Proj	Consumption Deflator AR%	Consumer Durables Proj	Consumer Durables AR%	Consumer Nondurables Proj	Consumer Nondurables AR%	Consumer Services Proj	Consumer Services AR%	Implicit Construction Deflator Proj	Implicit Construction Deflator AR%
January 1990	133.5		112.5		127.4		144.8		109.2	
February	134.0	7.1	112.4	3.9	128.4	12.9	144.9	4.8	109.5	3.2
March	134.6		112.4		129.1		145.6		109.8	
April	134.8		112.2		129.1		146.0		109.7	
May	135.3	3.9	112.2	-1.1	129.2	3.5	146.6	4.4	109.9	1.7
June	135.8		112.0		129.9		147.4		110.3 *	
July	136.3 *		112.3 *		130.3 *		148.0 *		110.6	
August	136.7	4.2	112.6	1.7	130.6	3.9	148.5	5.0	110.9	3.4
September	137.1		112.9		131.0		148.9		111.2	
October	137.6		113.3		131.4		149.5		111.5	
November	138.1	4.1	113.6	3.5	131.7	3.3	150.1	4.4	111.8	3.3
December	138.5		113.8		132.0		150.6		112.1	
January 1991	139.0		114.1		132.3		151.2		112.4	
February	139.4	4.0	114.4	3.0	132.6	2.9	151.8	4.7	112.7	3.3
March	139.9		114.7		133.0		152.4		113.0	
April	140.4		115.0		133.3		153.0		113.3	
May	140.8	4.1	115.2	2.9	133.6	3.1	153.6	4.8	113.6	3.2
June	141.3		115.5		134.0		154.2		113.9	
Chng June(91)/June(90)		4.1		3.1		3.2		4.6		3.3
Chng June(91)/June(90)		4.6		1.2		5.2		4.9		1.9

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
January 1990	-10.20		145.3		5349		4145		-14.6
February	-7.10	20.0	143.8	0.3	5376	6.7	4151	1.7	-12.2
March	-8.37		145.2		5402		4153		-10.1
April	-7.31		145.1		5426		4157		-3.6
May	-7.73	37.3	146.2	2.8	5451	5.8	4164	1.2	4.3
June	-7.80 *		146.0 *		5476		4166		4.1
July	-8.05		146.3		5496		4172		1.1
August	-7.92	-28.8	146.5	1.7	5519	5.1	4178	1.4	-2.8
September	-8.36		146.3		5542		4182		-5.3
October	-7.57		146.1		5556		4176		-8.8
November	-7.83	21.0	146.3	-0.5	5584	4.7	4184	0.6	-11.3
December	-7.54		146.2		5608		4190		-10.2
January 1991	-7.63		146.2		5631		4193		-7.3
February	-7.42	12.1	146.5	0.2	5659	5.3	4200	1.3	-11.6
March	-7.16		146.1		5677		4198		-12.9
April	-6.74		146.2		5695		4198		-10.6
May	-6.82	28.3	146.5	0.4	5715	4.5	4200	0.4	-7.7
June	-6.88		146.5		5744		4206		-8.4
Chng June(91)/June(90)		11.8		0.3		4.9		1.0	
Chng June(90)/June(89)		1.9		1.4		5.4		1.2	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	93.00		163.4		8.26		187.96	
February	92.25	-16.0	168.9	-1.2	8.50	28.1	182.55	-13.0
March	94.11		168.7		8.56		186.26	
April	93.51		165.0		8.76		185.61	
May	92.04	-2.0	166.2	-3.5	8.83	12.0	191.08	11.0
June	92.43		165.3		8.46		194.83	
July	90.26 *		167.3		8.53 *		195.57 *	
August	88.42	-16.6	168.6	7.1	8.41	-12.8	199.90	21.9
September	86.97		169.2		8.23		205.00	
October	88.27		162.7		8.22		197.36	
November	88.92	3.2	165.9	-6.0	8.12	-10.2	203.72	4.7
December	90.53		168.8		8.16		206.27	
January 1991	88.91		169.4		8.27		204.25	
February	89.26	1.2	169.9	3.7	8.29	4.8	204.36	-1.1
March	90.38		162.6		8.23		197.00	
April	91.23		159.7		8.16		195.15	
May	90.40	3.4	160.9	-14.3	8.05	-6.9	199.30	-7.9
June	89.16		162.3		8.14		198.81	
Chng June(91)/June(90)		-3.5		-1.8		-3.8		2.0
Chng June(90)/June(89)		-10.3		-8.4		2.3		8.2

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	298.2		794.8		3229.3		8.23		7.55	
February	300.1	8.7	801.4	4.9	3252.4	6.2	8.24	-15.8	7.70	10.5
March	303.3		804.8		3266.2		8.28		7.85	
April	304.8		807.4		3271.9		8.26		7.84	
May	305.7	7.7	805.5	3.6	3264.6	2.4	8.18	-0.3	7.76	2.3
June	308.0		809.6		3269.9		8.29		7.63	
July	308.0 *		810.9 *		3276.0 *		8.13 *		7.43 *	
August	309.3	4.1	813.6	3.2	3285.3	2.3	7.88	-14.8	7.22	-23.4
September	310.5		817.4		3300.4		7.75		7.08	
October	311.8		820.2		3316.4		7.58		6.97	
November	313.4	5.5	823.6	4.9	3331.7	5.4	7.49	-18.1	6.95	-13.9
December	315.0		827.5		3344.3		7.53		7.01	
January 1991	316.7		831.4		3357.8		7.56		7.07	
February	318.5	6.6	834.7	5.9	3373.5	5.4	7.54	-2.1	7.10	1.5
March	320.1		840.6		3392.6		7.38		6.84	
April	321.8		843.5		3406.1		7.25		6.73	
May	323.3	6.2	846.7	5.7	3420.7	5.6	7.25	-11.7	6.72	-14.0
June	324.6		851.3		3435.3		7.29		6.78	
Chng June(91)/June(90)		5.4		5.2		5.1		-12.1		-11.1
Chng June(90)/June(89)		6.3		4.6		5.4		-13.0		-3.8

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
January 1990	8.99		7.10		8.20		8.10		10.11	
February	9.22	14.4	7.22	5.2	8.14	-8.5	8.22	-9.7	10.00	-16.5
March	9.37		7.29		8.28		8.35		10.00	
April	9.46		7.44		8.30		8.42		10.00	
May	9.47	9.1	7.35	8.0	8.25	1.1	8.35	5.5	10.00	-1.5
June	9.26		7.24		8.14		8.23		10.00	
July	9.28 *		7.28 *		8.12 *		8.19 *		10.00 *	
August	9.16	-9.4	7.15	-9.1	7.82	-16.7	7.90	-17.0	9.73	-9.9
September	9.06		7.08		7.65		7.77		9.50	
October	9.09		7.11		7.53		7.66		9.50	
November	8.96	-6.1	6.99	-7.2	7.47	-16.9	7.58	-15.6	9.50	-9.6
December	9.02		7.01		7.52		7.63		9.50	
January 1991	9.12		7.09		7.56		7.65		9.50	
February	9.15	4.0	7.13	3.3	7.59	2.0	7.70	1.4	9.50	0.0
March	9.07		7.06		7.48		7.60		9.50	
April	9.01		6.98		7.26		7.35		9.22	
May	8.94	-5.3	6.91	-7.7	7.29	-13.1	7.43	-12.6	9.00	-16.8
June	9.02		6.97		7.30		7.41		9.00	
Chng June(91)/June(90)		-2.6		-3.7		-10.3		-10.0		-10.0
Chng June(90)/June(89)		1.8		3.1		-10.6		-10.5		-9.7

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
August 1990

Dr. Donald Ratajczak, Director
For Release: Friday, September 7, 1990

A FURTHER LOOK AT THE LATEST OIL SHOCK

During these uncertain times there may be only two types of forecasters: those who don't know, and those who don't know that they don't know. In our previous MONTHLY PROJECTIONS we assumed that only the Kuwaiti oil would be lost for a short period of time. Like Saddam Hussein, we underestimated the world's resolve to this dangerous leader.

By responding with an economic embargo and a military presence, the economic impact of the Persian Gulf crisis has been substantially changed. At the present time, about 4 million barrels a day have been removed from the world markets, or slightly less than 8% of the 54 million daily barrels normally consumed. Also, the Saudi's production of 5.5 million barrels a day would be jeopardized as well as the nearly 1 million barrels a day by the United Arab Emirates if the Iraqis choose to attack those oil production and distribution centers. (Of course, our forces would retaliate, but substantial damage to oil production capacity for up to six months is likely as a result of such action). Thus, about 20% of the world production of oil is at risk if hostilities occur in the Persian Gulf.

On the other hand, substantial excess capacity exists in OPEC, and several of those members already are moving to replace most of the oil lost from Kuwait and Iraq. Venezuela is adding 500,000 barrels a day. Even Alaska is able to provide about 250,000 daily barrels more through the pipeline. Another 2 million additional barrels is being produced by Saudi Arabia and more than 200,000 more is coming from Iran and the U.A.E. Of course, these latter sources remain at risk if hostilities develop. Nevertheless, a standoff would permit all but 1 million of the lost oil production to be replaced by additional production in the above areas.

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At more than $31 per barrel, or an increase of more than $12 per barrel since the middle of July, oil prices clearly are reflecting a greater shortfall than the one million cited above. Two reasons for the higher oil prices are apparent.

First, fears of oil shortages during the heating season have sharply increased oil demand. Customers are keeping their heating fuel tanks and gasoline tanks full. This shift in inventory from industry to consumers, where it is not easily measured, has added almost a million barrels a day to world demand. This should be a short-term surge in demand, but the heating season under normal conditions would add 1.5 million per day from the summer quarter. If the winter is cold, an additional million barrels per day could be needed. Thus, the market currently is preparing for as much as a 3 million surge in winter demand. By spring, demand would return to more normal levels, regardless of the winter weather; but inventories could be depleted. Government storage could overcome all but the most severe winter weather, but the oil markets remain unsure about how long the present surge in additional demand will prevail.

Second, hostilities could account for substantial damage to oil shipments. Although no one believes that 10 million barrels a day will be impacted, and virtually everyone maintains that even the Kuwaiti oil fields, which are apparently mined and will be destroyed by retreating Iraqi troops upon the onset of hostilities, can be back in production six to nine months later, enough uncertainty exists to encourage higher inventory holdings than normal. Using a short-run elasticity of .15, the markets currently are pricing a 4 million barrel shortfall. In the absence of further knowledge, the expected value of all possible outcomes in terms of oil availability probably is within that range. Therefore, oil prices probably are justified at prevailing $31 per barrel levels, but they should not go higher in the absence of more information concerning the likelihood of damage to the oil delivery system and the disruption of Saudi and U.A.E. deliveries.

Moreover, the long-run price elasticities are considerably higher, probably 0.7 to 0.8. Thus, if oil prices are expected to remain above $30 per barrel, changing consumption habits will reduce demand sufficiently to drive oil prices down, probably to as low as $23 per barrel in the case of a long-term stalemate. However, this is a catch-22. If oil prices are expected to fall soon, none of the spending needed to attain those higher elasticities will be made, and the price of oil can stay above $30 for a sustained period of time. Therefore, only if investors and consumers assume that oil prices will not fall, will the changed behavior lead to their decline. On the other hand, the longer prices remain high, the more likely people will believe that they will stay high, and will make changes that will lead to their decline. Certainly by the end of 1991, oil prices near $20 per barrel are more likely than oil above $30 per barrel, but the path to this lower oil price is not easy to determine.

Nevertheless, forecasters must forecast, and to do so, they must make assumptions. Our assumptions for this forecast is that oil will average $27 per barrel in the fourth quarter, fall to $25 per barrel in the winter, plunge to $21 per barrel in the spring and then gradually rise to $23 by next winter. This seems to be a reasonable path of oil price adjustments, but continued consumer hoarding, a bad winter, or hostilities certainly could create a substantially higher price horizon. On the other hand, the easing of Persian Gulf tensions, or a resolution of the conflict without substantial oil shipment displacement could lead to a substantially lower oil price profile.

As we use slightly more than 6 billion barrels of oil a year, every $6 increase in the price of oil will add about 1 percentage point to the CPI in the next six months. About half that gain would come from savings while the remainder would come from displaced purchases. Assuming little change in investment because of the oil price increase over that time, economic activity would fall by slightly less than 0.5%. At current oil prices of $31 per barrel, the CPI displacement is 2% and the impact upon economic activity is slightly more than 0.8%.

In addition to oil, the Persian Gulf crisis includes a substantial outlay of military expenditures. By the end of September, the monthly cost of maintaining the troops could be $1.5 billion. Normally, this expenditure would have a substantial offsetting impact upon economic activity, but a substantial portion of that cost will be spent abroad. Therefore, the trade deficit and the government deficit will suffer most of the impact of this venture.

Indeed, the government deficit, assuming no cost offset by our allies, would increase by nearly $30 billion because of added expenditures for the troops, the additional reserves called up and the higher oil bills paid by the government. Also, the nearly 1% decline in economic activity from what otherwise would be will take away about $20 billion in previously expected revenues. Thus, the deficit will be increased by more than $50 billion as a result of the Persian Gulf crisis.

The trade deficit should increase by $3 billion per month because of the higher oil bill and any reductions in sales to Iraq and Kuwait as a result of the embargo. (Iraq was our #1 purchaser of rice and #3 purchaser of corn before the embargo. Kuwait was a major purchaser of aircraft and military equipment, of which $3 billion may have fallen into Iraqi hands).

Our PROJECTIONS show three quarters of economic weakness. Real GNP appears to have peaked in July and will decline by a modest 0.8% to a trough next June. The employment numbers, with the aid of declining Census workers, peaked in June along with the index of hours worked in the private economy. Thus, a case can be made for the beginning of recession in July or August, but the degree of decline may be viewed as too modest to officially be called a recession. In any event, economic activity currently is declining and all the recessionary fallout from that should be apparent in the months ahead.

onthly Statistical Highlights

	AUGUST 1990	SEPTEMBER 1990	OCTOBER 1990
ayroll Employment		-49,000	-49,000
ndex of Hours Worked		-0.1%	-0.1%
ousehold Employment		+49,000	-54,000
ivilian Unemployment Rate		5.7%	5.9%
ersonal Income	+0.3%	+0.3%	+0.4%
avings Rate	4.7%	4.5%	4.4%
ersonal Consumption	+0.5%	+0.6%	+0.5%
etail Sales	+0.3%	+0.4%	+0.4%
uto Sales	9.5*	9.7*	9.2*
ousing Starts	-1.5%	-1.5%	+0.7%
ousing Permits	-2.2%	-2.7%	-0.3%
onstruction Expenditures	-0.6%	-0.8%	+0.6%
usiness Inventories	+0.7%	+0.6%	+0.2%
rders for Durable Goods	+0.6%	-2.6%	-0.1%
rders - Nondefense Capital Goods	-5.2%	-4.8%	-1.1%
ndustrial Production	-0.1%	-0.2%	-0.1%
PI	+0.9%	+0.8%	+0.5%
PI	+1.7%	+0.6%	+0.7%
onsumption Deflator	+1.0%	+0.6%	+0.4%
eading Indicators	-0.8%	-0.2%	-0.1%
urrency Index	-4.2%	-1.5%	-1.5%
quity Index		-2.7%	-0.1%
eal GNP (annual rate)	-0.9%	-3.1%	-1.4%
1 (annual rate)	+8.9%	+7.8%	+5.2%
2 (annual rate)	+5.1%	+6.0%	+4.7%

* auto sales in millions

COMMENTARY

EMPLOYMENT-Census workers fell by 120,000 in August, causing total payrolls to fall by 75,000. However, more than 100,000 of that growth was in health services and state and local government. In the private economy, the index of hours worked fell 0.6% from its June peak. Activity was especially weak in durable manufacturing, but all other sectors of the employment report were flat. The diffusion index was a recessionary 46.9. Since its June peak, payroll employment has fallen by 164,000, although Census workers fell by 293,000 to only 74,000 by August. More significantly, household estimates of employment have fallen by 731,000 from its June peak, an the unemployment rate is 0.5 percentage points above its June low. Will weakness persist now that Census reductions no longer are an important part of the payroll report? An increase in the manufacturing workweek may say that all these adjustments are temporary. However, more than 200,000 reportedly lost their job in August and the number of people unemployed less than 5 weeks is beginning to surge. Although the call is close, further weakness in employment appears likely.

The hourly earnings index increased only 0.2%, and is up 4.0% from the previous year. This clearly reduces fears that wage costs will add to inflation.

PERSONAL INCOME AND OUTLAYS-Surging oil prices will substantially impact household savings, as mentioned above. This will exacerbated by weakness in wage growth, little is expected for August as a result of the employment report. Farm incomes also will be under some pressure in the next few months because of the abundance of grain crops, except in the southeast. The July gains in wage income were stronger than normal because of a surge in service wages. Construction wages actually fell. Manufacturing wages should be off in August and little growth is expected in other wage sectors.

Auto sales were surprisingly weak in August, considering the change in pricing as the new model approaches and the incentives provided. As a result, the fall slump in auto sales could be greater than expected. Also, the July rebound in nonauto durables probably reflects a catch-up from a sluggish spring. Weakness is expected in household furnishings and furniture for the remainder of this year. Even the nondurables are weak, but this is being shielded by stronger gains in gasoline sales from higher prices. Although consumption appears to register a healthy increase for the quarter, all the gain is in prices. In real terms, no growth is occurring in consumer spending, and none is expected until after the oil prices crest in the winter. Thus, the Christmas season also should be rough.

CONSTRUCTION-Housing construction and sales slumped in July even as mortgage rates were going down. Now that rates are again rising, further weakness in housing is expected into the winter. Apartments continue to face the brunt of this slump because of credit availability problems, but single family activity also should remain sluggish until mortgage rates begin to fall. A normal rebound in housing is expected early next year, but the gains are from a lower base than originally expected.

The slump in housing is becoming more obvious in residential construction. Still, the employment and wages in construction fell in July, while expenditures apparently increased. The employment statistics normally would favor an increase in construction employment in August, but the surveys appear to be out of phase with each other. Public construction has stalled following the surge and sag associated with natural disasters. Only modest growth is expected here as governments struggle with their budget deficits. The rebound in nonresidential activity was concentrated in industrial activity during the summer and probably has little staying power. Commercial and retail construction remains overbuilt. Moreover, orders have been down 8% this year, which could translate into a sharper fall in construction expenditures later this year than currently assumed.

The construction deflator already is beginning to accelerate because of higher material costs. Further gains are likely from the rise in oil derivative prices despite the weakness in demand. Nevertheless, no surge in construction costs is likely because wage prices should remain modest.

BUSINESS ACTIVITY-Transportation equipment again helped durable goods orders in July, but orders were also slightly higher in most sectors. However, the employment report for August clearly shows weakness in durable manufacturing. This could be a delayed response to the surprising 2% decline in durable shipments. After all, inventories increased sharply in July, probably because some orders were cancelled. Therefore, continued strength in durable activity should not be expected. However, the increase in inventories will be reflected in higher business inventories during the summer. Also, higher petroleum prices will impact the nondurables orders, inventories, and shipments in August and beyond. Therefore, the modest increase in industrial production during the summer is merely to add to inventories. Weakness certainly is expected in the fall and beyond.

Defense shipments have been revised upward as a result of the latest crisis, but this still means a decline in shipments during the bulk of this year. Moreover, no substantial rebound in defense shipments is expected, as strategic weapons still are subject to reductions. As capacity utilization declines, some weakness should develop in capital goods orders, leading to some declines in orders for nondefense capital goods.

PRICES-Although most of the oil price effect should be in the prices during the third quarter, fourth quarter averages will appear to be more robust because these gains occur late in the quarter. In August alone, prices for nondurable goods are expected to be up 2.2% because of a 24% increase in the price of gasoline. More moderate price changes are expected for September, although gains will remain sizable then. The acceleration in service prices occurred prior to the Persian Gulf crisis and should not be substantially impacted by that event. Higher auto and jewelry prices are reflected in prices for consumer durables. Indeed, increases may be understated for the fourth quarter in that sector. Prices then are expected to moderate substantially. In the twelve months following September, inflation may be less than normal as a slowing economy and some backtracking in oil prices combine to substantially reduce inflationary pressures.

The GNP deflator also should increase significantly because of the surge in consumer prices. The timing of the price increases for GNP may be off slightly, as import prices may increase faster than domestic prices. Because inventories are evaluated only in terms of domestic prices, this creates a distortion in terms of the timing of price changes. However, domestic prices appeared to anticipate rather than respond to the higher oil prices. Indeed, if imported oil continues to be delivered at $15 per barrel into September, the deflator would be higher in the third quarter than currently estimated. Of course, that would then lead to a lower deflator in the fourth quarter than the 6% currently projected.

MISCELLANEOUS-Higher oil prices will be like an elevator increasing the trade deficit to a higher plateau. However, as the dollar is expected to weaken considerably over this time, other trade flows will continue to improve. By early next year the dollar will be in a position to rebound. Our current feeling is that the dollar will fall to 1.5 marks and then rally to 1.6 marks next year. The dollar will fall to 135 yen and then rally to 145 yen next year. Thus, the U.S. will be able to pay for its oil bill, which also will be declining after the winter according to our assumptions. However, the Persian Gulf crisis will delay further adjustment in our trade deficits for about a year and add considerably to the total debt outstanding.

The leading indicators really did not lead in this downturn. However, they are expected to lead the recovery. Most of the gains will be in building permits, which have fallen to such a low level that some rebound is increasingly likely.

Although the economy peaked in July according to this analysis, enough momentum was available from the end of the second quarter to prevent the economy from registering a decline for the summer quarter. However, activity should weaken noticeably in the fall and then gradually stabilize by midyear. As the recession is mild, the recovery should be muted.

The estimated increase in adjusted profits during the summer reflects higher oil profits and the delay in adjusting inventory values for rising prices. The estimated 9.2% decline in adjusted profits from peak to trough is slightly less than would be anticipated for the decline in economic activity. Perhaps, the profits decline will be sharper than currently estimated.

FINANCIAL MARKETS

Shifts in savings activity certainly explain why interest rates are increasing at the present time. The household savings rate is falling as higher oil prices sap the purchasing power of consumers. Government deficits are rising as military activity and reduced economic activity lead to an additional $50 billion in government borrowings. Although some corporations, the oil producers, are sharply improving their cash flow, most are being squeezed. Their cost of materials are accelerating with oil prices and the demand for their products is being squeezed by reduced purchasing power. Higher inventory investment will be needed as commodity prices rise because of oil. Thus, all the domestic sectors clearly are reducing their net savings.

Foreign investors are nervous because the values of their domestic portfolios are declining along with a worldwide decline in stock values. Therefore, they are reluctant to accumulate any more dollar based assets. Furthermore, as inflation rises abroad, foreign central banks are restraining credit expansion, leading to rising interest rates abroad. Therefore, only substantial interest rate concessions would entice foreign investors into dollar instruments. Thus, all the forces for rising interest rates currently are in place.

As long as oil prices continue to rise, no reversal of this pattern is expected. However, if oil prices already are discounting most reasonable eventualities and will be coming down, then the negative forces on interest rates should largely reverse toward positive forces by year's end. Early in 1991, household savings should expand significantly, although net savings may again fall in the spring as housing activity increases.

Corporate inventory investment in dollar terms should peak in the fall. Although profits should continue falling into the spring, reduced investment needs will begin generating favorable corporate cash positions by the winter. These should persist for much of next year.

Government deficits currently look very difficult. Deficits approaching $300 billion are possible early next year. However, most of the increase in deficit borrowings will occur by the fall. As a result, government will have little further upward pressure on interest rates by the winter.

Foreign investors still might ignore dollar assets, but enough positive shifts in savings or investments domestically should develop to permit easing interest rates by the winter. Indeed, our analysis suggests that bonds purchased this September will experience total returns in excess of 17% by a year from now. This compares to less than a 10% expected return for equities.

Short-term interest rates will fall earlier than that. The Federal Reserve soon will discover the recessionary risks and begin lowering their federal funds targets. This will cause further declines in other short-term rates, with the prime rate eventually falling by a full percentage point to 9% by next summer.

EQUITY MARKETS-Our equity formulas indicate that the market already has dropped sufficiently to discount most of the recessionary impact of the oil shock. Although strong rallies from current levels should not be anticipated, a November low of less than 5% below current levels is expected. Although total returns of only 10% for the next year do not sound dramatic, they are acceptable. Moreover, some stocks that have not been overvalued during the market surge but have been beat down in the drop, especially primary and secondary issues in the over the counter market, could do much better than that. However, the average investor will not regain the portfolio values of this spring before the end of 1991.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
April 1990	110401		130.0		118116		5.4	9.95	
May	110770	1.7	130.1	0.8	118350	0.7	5.3	9.98	4.5
June	110925		130.7		118389		5.2	10.03	
July	110706		130.8		117953		5.5	10.09	
August	110657 *	-0.2	130.6 *	1.1	118002 *	-1.1	5.5	10.12 *	5.4
September	110608		130.5		117948		5.7	10.15	
October	110559		130.4		117880		5.9	10.19	
November	110698	0.2	130.6	-0.2	118003	0.1	5.9	10.23	4.3
December	110839		130.7		118093		5.9	10.26	
January 1991	110936		130.8		118190		5.9	10.30	
February	110904	0.7	130.8	0.6	118133	0.5	6.0	10.35	4.8
March	110872		130.7		118101		6.2	10.39	
April	110885		130.7		118121		6.3	10.43	
May	110912	0.0	130.7	-0.2	118170	-0.0	6.3	10.46	4.6
June	110949		130.7		118103		6.4	10.50	
July	111021		130.7		118219		6.4	10.53	
August	111134	0.8	130.8	0.4	118318	0.7	6.4	10.57	4.1
September	111267		131.0		118458		6.3	10.61	
Chng Sept(91)/Sept(90)		0.6		0.4		0.4			4.5
Chng Sept(90)/Sept(89)		1.4		1.2		0.5			3.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	4.608		2.682		~~199.1~~		3.916		3.717	
May	4.624	5.6	2.694	6.8	205.9	17.3	3.929	4.6	3.723	4.0
June	4.646		2.710		192.4		3.951		3.759	
July	4.672		2.726		196.6		3.972		3.776	
August	4.685 *	5.3	2.730 *	5.3	186.3 *	-21.8	3.980 *	5.1	3.794 *	6.8
September	4.701		2.736		178.8		3.993		3.814	
October	4.721		2.747		174.8		4.009		3.834	
November	4.746	5.1	2.763	4.6	173.6	-27.2	4.030	4.8	3.856	6.6
December	4.768		2.775		170.5		4.048		3.878	
January 1991	4.792		2.789		177.7		4.077		3.899	
February	4.818	6.1	2.805	6.1	185.9	26.1	4.104	7.3	3.918	6.5
March	4.837		2.815		186.3		4.120		3.934	
April	4.860		2.828		184.5		4.139		3.955	
May	4.878	5.1	2.837	5.1	179.2	-12.9	4.153	5.0	3.974	6.0
June	4.890		2.850		167.5		4.161		3.994	
July	4.909		2.859		164.0		4.176		4.012	
August	4.935	5.0	2.874	5.2	166.7	-19.0	4.198	4.6	4.031	5.8
September	4.962		2.890		173.3		4.221		4.048	
Chng Sept(91)/Sept(90)		5.6		5.6		-3.1		5.7		6.1
Chng Sept(90)/Sept(89)		6.6		5.5		19.7		6.5		6.0

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	3608.1		481.6		1174.3		1952.2		2676.0	
May	3613.8	4.1	473.8	-10.0	1174.2	1.4	1965.9	4.9	2672.6	0.3
June	3649.9		482.5		1187.7		1979.7		2689.4	
July	3666.5		487.9		1186.0		1992.7		2694.6	
August	3683.9 *	6.9	481.1 *	3.5	1196.2 *	5.7	2006.6 *	8.4	2679.6 *	0.7
September	3704.2		481.4		1203.5		2019.3		2677.5	
October	3723.9		482.8		1209.0		2032.1		2680.9	
November	3745.8	6.7	487.8	3.0	1212.2	6.0	2045.8	8.1	2686.9	0.4
December	3766.5		490.5		1217.4		2058.6		2693.0	
January 1991	3788.0		494.3		1222.4		2071.3		2698.9	
February	3806.5	6.6	495.7	6.4	1226.0	4.5	2084.8	7.8	2702.2	2.2
March	3821.7		493.8		1230.7		2097.2		2703.2	
April	3842.2		495.8		1236.0		2110.4		2711.0	
May	3861.2	6.0	499.7	3.9	1239.0	4.2	2122.5	7.6	2716.6	2.3
June	3880.1		502.4		1241.9		2135.8		2722.5	
July	3898.2		503.7		1245.8		2148.7		2726.7	
August	3917.1	5.3	506.8	5.6	1248.8	3.1	2161.5	7.5	2731.4	2.1
September	3933.1		507.8		1250.7		2174.6		2733.9	
Chng Sept(91)/Sept(90)		6.2		5.5		3.9		7.7		2.1
Chng Sept(90)/Sept(89)		6.0		-0.7		5.5		8.1		0.0

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	147.89		22.78		9.6		94.27		30.84	
May	147.78	-3.6	22.67	8.7	9.3	-5.4	94.26	1.4	30.85	-13.5
June	149.37		22.70		9.9		95.64		31.04	
July	149.51		23.03		9.7		95.61		30.86	
August	149.96 *	4.6	22.77 *	1.7	9.6 *	2.8	96.43 *	7.1	30.76 *	-0.8
September	150.58		22.63		9.7		97.02		30.93	
October	151.18		22.57		9.2		97.46		31.15	
November	151.99	5.3	22.71	-2.1	9.4	-11.8	97.72	6.0	31.56	8.7
December	152.71		22.79		9.5		98.14		31.78	
January 1991	153.54		22.85		9.8		98.54		32.15	
February	153.98	5.2	22.96	4.0	9.8	16.6	98.83	4.5	32.19	8.1
March	154.15		22.93		9.6		99.21		32.01	
April	154.80		23.11		9.6		99.64		32.05	
May	155.48	4.1	23.04	3.4	9.8	2.8	99.88	4.2	32.56	4.2
June	156.01		23.17		10.0		100.11		32.73	
July	156.47		23.09		10.1		100.43		32.95	
August	157.06	4.0	23.24	1.9	10.2	15.8	100.67	3.1	33.15	8.3
September	157.32		23.31		10.2		100.82		33.19	
Chng Sept(91)/Sept(90)		4.5		3.0		5.2		3.9		7.3
Chng Sept(90)/Sept(89)		2.3		0.5		-9.3		5.8		-6.2

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	372.3		123.61		36.57		35.30	
May	372.4	-1.3	128.74	10.7	35.93	-21.1	35.30	-3.5
June	370.7		124.69		36.19		36.62	
July	373.3		128.22		39.79		34.95	
August	376.9 *	5.4	128.99 *	6.3	37.73 *	18.7	35.66 *	-4.0
September	379.9		125.64		35.92		35.53	
October	380.9		125.52		35.53		35.26	
November	382.1	5.9	124.47	-6.4	34.97	-23.1	35.21	-0.8
December	383.5		126.63		35.73		35.45	
January 1991	384.9		126.22		34.91		35.41	
February	386.0	3.9	127.78	6.0	35.16	-2.4	34.83	-2.7
March	386.7		128.14		35.52		34.96	
April	387.4		128.01		35.53		35.16	
May	387.9	2.0	128.53	4.6	35.82	7.3	35.23	2.9
June	388.0		129.94		36.11		35.56	
July	388.4		129.16		36.71		35.27	
August	389.7	1.8	129.43	1.9	36.51	9.4	35.42	1.7
September	390.5		129.76		36.69		35.71	
Chng Sept(91)/Sept(90)		2.8		3.2		2.1		0.5
Chng Sept(90)/Sept(89)		2.4		0.3		1.6		-0.6

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	796.1		8.92		108.8		83.1	
May	800.4	1.5	9.18	30.1	109.4	0.9	83.4	-1.7
June	797.3		9.10		109.9		83.6	
July	802.9 *		8.97		109.9		83.4	
August	808.3	5.2	8.93 *	1.6	109.8 *	1.5	83.1 *	-1.4
September	812.9		9.41		109.6		82.7	
October	814.5		9.02		109.5		82.4	
November	818.3	5.1	8.81	-4.7	109.3	-1.2	82.0	-4.4
December	821.6		9.15		109.5		82.0	
January 1991	824.3		9.04		109.6		81.9	
February	827.2	4.4	8.86	-4.4	109.3	-0.4	81.5	-3.0
March	829.6		8.78		109.1		81.1	
April	831.3		8.81		108.9		80.7	
May	833.3	3.0	8.64	-6.6	108.8	-1.6	80.4	-4.8
June	834.8		8.78		109.0		80.4	
July	836.9		8.75		109.2		80.4	
August	839.3	3.1	8.77	2.0	109.4	2.0	80.4	-0.3
September	842.1		8.84		109.7		80.5	
Chng Sept(91)/Sept(90)		3.6		-6.1		0.1		-2.7
Chng Sept(90)/Sept(89)		2.6		2.0		1.3		-1.3

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ARX is the annualized percentage change from the previous quarter.

CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	1.216		0.898		0.318		1.108	
May	1.206	-53.6	0.897	-53.7	0.309	-53.3	1.065	-65.1
June	1.179		0.885		0.294		1.108	
July	1.148		0.873		0.275		1.079	
August	1.131 *	-21.2	0.866 *	-12.6	0.265 *	-42.5	1.055 *	-14.0
September	1.114		0.852		0.262		1.026	
October	1.122		0.855		0.267		1.023	
November	1.129	-0.4	0.851	-3.2	0.278	9.3	1.024	-10.2
December	1.139		0.864		0.275		1.029	
January 1991	1.162		0.877		0.285		1.053	
February	1.186	20.3	0.893	17.2	0.293	30.2	1.078	20.7
March	1.202		0.904		0.298		1.093	
April	1.214		0.913		0.301		1.102	
May	1.219	14.0	0.923	14.7	0.296	11.9	1.108	13.3
June	1.235		0.931		0.304		1.116	
July	1.239		0.932		0.307		1.133	
August	1.252	9.2	0.941	7.4	0.311	15.0	1.154	15.6
September	1.259		0.944		0.315		1.162	
Chng Sept(91)/Sept(90)		13.0		10.8		20.2		13.3
Chng Sept(90)/Sept(89)		-11.8		-12.1		-10.9		-21.7

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	139.2		104.5		205.1		448.8		409.2	
May	138.5	-0.6	108.0	-10.4	198.1	-10.1	444.6	-7.5	403.6	-8.9
June	140.3		108.8		191.3		440.4		399.7	
July	143.1		108.6		190.5		442.2		400.1	
August	142.5 *	9.2	108.4 *	5.9	188.6 *	-18.6	439.6 *	-4.7	396.7 *	-7.4
September	141.7		108.9		185.6		436.2		392.6	
October	142.4		109.3		187.3		439.0		394.1	
November	142.6	0.5	109.7	4.0	187.1	-2.9	439.4	-0.1	393.7	-3.0
December	142.8		110.1		186.2		439.1		392.4	
January 1991	142.5		110.4		187.6		440.5		392.6	
February	142.8	0.7	110.8	4.1	188.9	4.4	442.5	3.1	393.3	-0.1
March	143.2		111.2		190.1		444.5		394.1	
April	143.5		111.5		191.8		446.8		395.0	
May	143.7	2.5	111.8	3.8	193.2	8.7	448.7	5.5	395.7	2.3
June	144.0		112.2		193.6		449.8		396.0	
July	144.1		112.6		195.0		451.7		396.6	
August	144.0	1.0	113.0	3.7	196.7	7.4	453.7	4.4	397.3	1.4
September	144.2		113.0		197.3		454.5		396.9	
Chng Sept(91)/Sept(90)		1.8		3.8		6.3		4.2		1.1
Chng Sept(90)/Sept(89)		1.9		7.5		-3.8		0.7		-1.7

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AR% is the annualized percentage change from the previous quarter.

PRICES

	CPI-U (seasonally adjusted) Proj	CPI-U AR%	PPI [illegible]ished Goods [illegible]easonally adjusted) Proj	PPI AR%	PPI-Industrial Commodities (unadjusted) Proj	PPI-Industrial AR%	Estimated GNP Deflator Proj	Estimated GNP Deflator AR%
April 1990	129.3		116.6		113.1		130.5	
May	129.6	4.2	117.0	-1.2	113.3	-1.6	131.0	4.7
June	130.2		117.2		113.1		131.4	
July	130.7		117.1		113.2		131.8	
August	131.9 *	6.9	119.1 *	6.1	117.2 *	9.6	133.1	6.0
September	133.0		119.8		117.0		133.9	
October	133.7		120.6		119.4		134.4	
November	134.3	7.5	120.8	7.4	119.7	13.5	134.9	6.0
December	134.8		121.0		119.5		135.3	
January 1991	135.2		120.8		119.5		135.8	
February	135.7	4.1	121.1	0.2	119.9	0.4	136.3	4.2
March	136.0		120.7		119.6		136.7	
April	136.4		121.0		119.9		137.1	
May	136.8	3.4	121.2	0.9	119.9	0.6	137.5	3.6
June	137.1		121.2		119.7		137.8	
July	137.5		121.4		119.8		138.3	
August	137.9	3.4	121.7	1.6	120.1	0.8	138.7	3.6
September	138.3		121.9		120.3		139.1	
Chng Sept(91)/Sept(90)		4.0		1.8		2.8		3.9
Chng Sept(90)/Sept(89)		6.2		4.4		4.3		4.7

	Consumption Deflator Proj	Consumption Deflator AR%	Consumer Durables Proj	Consumer Durables AR%	Consumer Nondurables Proj	Consumer Nondurables AR%	Consumer Services Proj	Consumer Services AR%	Implicit Construction Deflator Proj	Implicit Construction Deflator AR%
April 1990	134.8		112.2		129.1		146.0		109.7	
May	135.2	3.7	112.2	-1.0	129.2	3.5	146.6	4.2	110.1	1.8
June	135.7		112.1		130.0		147.2		110.2	
July	136.1		112.1		130.1		147.8		110.5	
August	137.5 *	6.2	112.4 *	1.1	133.0 *	9.6	148.4 *	5.1	110.8 *	2.9
September	138.3		112.9		134.2		149.1		111.1	
October	138.9		113.2		134.8		149.7		111.4	
November	139.4	6.2	113.5	3.7	135.3	8.7	150.3	5.1	111.6	3.0
December	139.9		113.8		135.6		150.9		111.9	
January 1991	140.4		114.2		136.0		151.5		112.2	
February	140.9	4.3	114.5	3.7	136.3	3.2	152.2	5.1	112.5	3.1
March	141.4		114.9		136.6		152.8	—	112.8	
April	141.7		115.2		136.6		153.4		113.1	
May	142.1	3.6	115.5	3.4	136.8	1.4	154.0	4.9	113.4	3.1
June	142.5		115.8		136.9		154.6		113.6	
July	143.0		116.0		137.2		155.2		113.9	
August	143.4	3.7	116.3	2.7	137.5	2.2	155.8	4.8	114.2	3.0
September	143.9		116.5		137.8		156.4		114.5	
Chng Sept(91)/Sept(90)		4.0		3.2		2.7		4.9		3.1
Chng Sept(91)/Sept(90)		4.6		1.6		8.8		5.0		2.3

PROJ includes current information until the * and then projections by month thereafter
AR% is the annualized percentage change from the previous quarter.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
April 1990	-7.31		145.1		5426		4157		-2.5
May	-7.77	62.0	145.9	0.3	5451	5.8	4162	1.2	1.3
June	-5.07		146.1		5477		4167		4.2
July	-5.84 *		146.1		5499		4172		4.9
August	-5.61	5.4	144.9 *	-1.5	5547	6.5	4169	0.4	-5.8
September	-8.42		144.5		5567		4158		-14.9
October	-9.26		144.3		5581		4153		-20.3
November	-9.09	-236.9	144.6	-1.9	5598	4.5	4151	-1.4	-21.4
December	-8.57		144.5		5616		4150		-17.2
January 1991	-8.26		145.0		5635		4150		-15.6
February	-7.63	46.7	145.3	1.8	5649	3.7	4146	-0.5	-15.8
March	-7.11		145.0		5663		4142		-17.1
April	-6.28		145.2		5674		4139		-15.1
May	-6.56	52.3	145.5	1.6	5689	2.8	4138	-0.7	-11.6
June	-6.27		146.3		5702		4137		-7.9
July	-6.63		146.7		5722		4139		-7.3
August	-6.22	8.5	147.0	3.1	5749	4.5	4145	0.8	-7.0
September	-5.84		146.6		5781		4155		-5.4
Chng Sept(91)/Sept(90)		30.6		1.5		3.8		-0.1	
Chng Sept(90)/Sept(89)		4.0		-0.3		5.9		1.0	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	93.51		170.3		8.76		185.61	
May	92.04	-2.0	176.7	22.0	8.83	28.1	191.35	12.7
June	92.43		179.5		8.46		196.68	
July	89.68		179.1		8.50		196.60	
August	85.88	-23.3	180.3	9.8	8.77	3.7	178.36	-16.4
September	84.57 *		179.6		9.02 *		173.61 *	
October	83.31		176.8		8.93		173.49	
November	82.26	-15.0	173.4	-11.6	8.88	1.4	171.96	-17.0
December	84.17		172.5		8.57		178.15	
January 1991	86.43		170.6		8.46		179.37	
February	85.72	14.8	168.3	-12.5	8.55	-13.6	175.96	7.5
March	86.35		166.7		8.42		177.86	
April	87.16		165.1		8.35		178.52	
May	88.68	8.1	165.1	-8.5	8.31	-8.4	180.28	6.0
June	87.73		164.3		8.22		182.28	
July	88.04		164.7		8.13		185.67	
August	90.13	9.1	163.8	-1.1	8.20	-5.0	183.99	10.5
September	91.21		164.6		8.23		185.14	
Chng Sept(91)/Sept(90)		7.9		-8.4		-8.8		6.6
Chng Sept(90)/Sept(89)		-17.0		1.0		8.5		-10.1

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	304.8		807.3		3277.9		8.26		7.84	
May	305.7	4.1	805.4	3.6	3271.8	2.9	8.18	-0.3	7.76	2.3
June	308.0		809.4		3279.6		8.29		7.63	
July	309.3		809.2		3284.9		8.15		7.52	
August	311.8 *	7.6	815.0	3.7	3298.6 *	2.8	8.12 *	-8.3	7.47 *	-14.8
September	314.4		820.1		3314.7		7.93		7.33	
October	316.0		823.6		3327.3		7.76		7.21	
November	317.4	7.4	826.9	6.1	3342.8	5.0	7.63	-19.4	7.15	-14.4
December	318.9		830.2		3350.4		7.54		7.11	
January 1991	320.2		834.3		3366.7		7.39		6.97	
February	321.7	5.6	838.3	5.5	3384.6	5.2	7.27	-17.1	6.85	-14.9
March	323.4		841.8		3397.3		7.22		6.80	
April	324.8		845.3		3412.7		7.06		6.68	
May	326.2	5.6	848.7	5.2	3426.8	5.4	7.02	-13.0	6.63	-12.2
June	327.6		852.4		3443.6		7.05		6.65	
July	328.9		856.3		3458.4		7.08		6.61	
August	330.2	5.1	859.8	5.3	3473.5	5.5	7.05	0.4	6.55	-2.2
September	331.7		863.3		3489.6		7.02		6.69	
Chng Sept(91)/Sept(90)		5.5		5.3		5.3		-11.5		-8.7
Chng Sept(90)/Sept(89)		7.5		4.8		4.8		-12.1		-5.3

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	9.46		7.44		8.30		8.42		10.00	
May	9.47	9.1	7.35	8.0	8.25	1.1	8.35	5.5	10.00	-1.5
June	9.26		7.24		8.14		8.23		10.00	
July	9.24		7.19		7.99		8.10		10.00	
August	9.43	2.1	7.44	4.4	7.93	-13.9	7.99	-14.4	10.00	-2.0
September	9.67 *		7.64 *		7.86 *		7.96 *		9.85 *	
October	9.78		7.76		7.72		7.83		9.50	
November	9.75	10.7	7.70	13.4	7.57	-16.2	7.68	-15.5	9.50	-16.9
December	9.54		7.52		7.46		7.55		9.50	
January 1991	9.43		7.40		7.35		7.46		9.36	
February	9.52	-9.4	7.47	-11.5	7.22	-16.1	7.33	-15.2	9.25	-8.7
March	9.41		7.42		7.20		7.34		9.25	
April	9.27		7.26		7.09		7.21		9.25	
May	9.20	-10.4	7.18	-12.6	7.05	-9.7	7.16	-9.9	9.16	-6.3
June	9.12		7.11		7.08		7.19		9.00	
July	9.07		7.06		7.09		7.20		9.00	
August	9.08	-5.5	7.04	-7.9	7.09	0.2	7.17	-0.9	9.00	-5.9
September	9.05		7.01		7.05		7.14		9.00	
Chng Sept(91)/Sept(90)		-6.4		-8.2		-10.3		-10.3		-8.6
Chng Sept(90)/Sept(89)		7.3		5.2		-10.6		-9.3		-6.2

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ECONOMIC FORECASTING CENTER

MONTHLY PROJECTIONS
September 1990

Dr. Donald Ratajczak, Director
For Release: Friday, October 5, 1990

BUDGET UNCERTAINTY ADDS TO OIL UNCERTAINTY

After eight months, the budget reduction package arrived at a budget summit was defeated by a House of Representatives who felt that they could not run for re-election on the tax increases and medicare cuts contained in the program. Will this mean that 32% of the government unprotected by Gramm-Rudman exclusions, including air traffic controllers, statistics workers, and even federal court bailiffs will be furloughed? Such a result would be so damaging to the economy after a few days (it also impacts customs processors and agricultural inspectors) that such sequestering of funds could not be tolerated for any length of time. The damage to the economy from the absence of regulator enforcers would truly exceed any damage that would be forthcoming from a tax increase.

Will any deficit reduction fail, with the government running with continuing resolutions and $300 billion borrowing needs well into the future. This would suggest that the fiscal-monetary imbalance of policy will continue, causing further slowing in capital accumulation, increased dependence upon foreign borrowings, and greater inflationary tendencies than a more balanced mix of policies will generate?

Of course, a new deficit reduction package that eliminates the revenue raisers but intensifies budget restraint upon spending could be enacted. However, previous programs to contain spending have soon been abandoned. While further spending cuts probably are required, along with further changes in the budgetary procedures to assure that overspending is out of order, the financial and international markets may need to see some tax raising measures before they can be certain that the United States can right its policy mix.

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In fact, most of the tax increases could be justified on economic grounds. Tobacco products appear to create health problems and also add to fire problems. Further taxes on the use of such products would partially re-imburse governments for the social costs create from the use of these products. Similarly, family abuse and auto accidents associated with the consumption of alcoholic beverages strongly suggest that further tax burdens be levied against those items.

The crumbling infrastructure, environmental problems, and new military requirements defending our oil supplies from the Middle East strongly suggest that further revenues be raised from the use of petroleum products.

Even some of the additional taxes for medicare through payrolls and higher monthly contributions from the elderly have some economic foundations. Of course, taxing retirees, who no longer have the economic options to change behavior that others have, should be used only as a last resort. But the fastest growing expenditure other than interest is the medical obligations of the federal government. In effect, the government sponsored medical insurance program is insolvent and would be bankrupt in a private setting. Therefore, higher premiums are justified, although an increase in the payroll tax rate from 1.45% would make more economic sense then the higher monthly contributions from the retirees and the extension of the payroll tax base, which impacts higher wage earners.

Most of the tax incentives have little justification. Higher oil prices should be sufficient to stimulate domestic production. Is this country favorably impacted by using our oil resources more quickly, therefore increasing our future dependence upon foreign resources. At most, further purchases to the strategic oil reserve in the long run could be justified.

The venture capital incentive is interesting, but it is structured so poorly that investors of small companies would receive substantial tax incentives with little impact upon the equity raised by small companies. Small business loans and industrial development grants could more effectively stimulate new business per dollar of increased deficit.

Also, the spending restraints need greater teeth. For instance, any program growing more than the rate of inflation would need to contain its own revenue source or it would be ruled out of order. All programs, including the medical ones, would be denied any real growth without new revenue sources until deficit reduction targets are met. Or the leadership of the Congress or the President would have the authority to reduce or eliminate programs subject to Congressional override until deficit reduction targets are met.

Sequestering is so damaging to the economy that it cannot be allowed to happen for any length of time. Uncertainty about budget deficits also is damaging. Raising taxes is damaging as well. Indeed, the budget deficit reduction program makes no sense in the current recessionary climate without some reduction in Federal Reserve restraint. The process is to redress an inappropriate policy mix, not to propel the economy into a deeper recession than otherwise would develop.

That the economy entered a recession in July is more certain with each monthly drop in employment. Weakness in the manufacturing sector is spreading according to the September **EMPLOYMENT SITUATION**. Only 35% of manufacturing industries recorded employment gains. Only 44% of all industries showed any gains.

Weakness is throughout the durable goods industries and is also impacting most nondurables, but by lesser amounts. Construction continues to plunge while retail, financing, and real estate also are weakening. In September, even business services showed declines. Nearly all the employment gains since the beginning of this year have been in two sectors: health and education. With local government budgets being squeezed by higher energy costs and lower tax receipts, education spending soon may slow. An economy cannot move forward with this type of economic thrust.

Unfortunately, the budget uncertainty probably reduces the likelihood that the Federal Reserve will respond to these recessionary signs. Having linked an easing to the passage of a credible deficit reduction, Chairman Greenspan probably cannot ease when such a deficit package is defeated. Therefore, the first victim of the deficit reduction defeat is monetary easing. That will prolong the recession and may make it more intense than a shift in policy would have created.

The outlook for long-term interest rates has become more clouded in the short-run. If the economy weakens rapidly, interest rates will fall even without a deficit reduction program, despite a deficit that will be rising by nearly $25 billion for every percentage point reduction in economic growth. However, the continuation of this gradual drift downward may lead to periodic surges in interest rates as large government bond supplies come to market. Our PROJECTIONS reflect higher interest rates during the quarterly fundings, although rates should trend downward after this fall.

Stock prices definitely should decline under current conditions. Not only is the economy in recession, causing corporate profits to fall sharply, but monetary restraint may prevail longer than originally thought. Thus, both profits and interest rates could be moving in the wrong direction for longer than originally expected. Therefore, new lows are expected in equity values, although a major decline from current levels is not likely, as our formulas suggest.

Monthly Statistical Highlights

	SEPTEMBER 1990	OCTOBER 1990	NOVEMBER 1990
Payroll Employment		-37,000	-59,000
Index of Hours Worked		-0.2%	-0.1%
Household Employment		+29,000	-94,000
Civilian Unemployment Rate		5.7%	5.9%
Personal Income	+0.5%	+0.3%	+0.4%
Savings Rate	4.0%	3.9%	3.7%
Personal Consumption	+0.6%	+0.4%	+0.6%
Retail Sales	+0.9%	+0.0%	+0.6%
Auto Sales	9.8*	9.0*	9.3*
Housing Starts	-1.7%	-0.5%	+1.1%
Housing Permits	-1.8%	-1.3%	+0.2%
Construction Expenditures	-0.4%	-0.1%	-0.1%
Business Inventories	+0.7%	+0.5%	+0.5%
Orders for Durable Goods	+0.4%	-0.5%	-0.6%
Orders - Nondefense Capital Goods	+0.8%	-0.9%	-0.9%
Industrial Production	-0.2%	-0.1%	-0.2%
CPI	+0.7%	+0.8%	+0.6%
PPI	+1.3%	+0.9%	+0.6%
Consumption Deflator	+0.7%	+0.6%	+0.6%
Leading Indicators	-1.1%	-0.5%	0.0%
Currency Index	-0.4%	-3.4%	-0.5%
Equity Index	-2.9%	-2.4%	-2.4%
Real GNP (annual rate)	-1.7%	-2.0%	-3.1%
M1 (annual rate)	+6.2%	+4.9%	+5.4%
M2 (annual rate)	+6.2%	+5.4%	+4.9%

* auto sales in millions

COMMENTARY

EMPLOYMENT-The September **EMPLOYMENT SITUATION** almost confirmed that a recession began in July. Payroll employment fell 101,000, and only 42,000 of that was caused by reductions in census employment. Weakness was widespread, with only 44% of industries registering employment gains, a recession level. Thus, employment has now fallen for three months according to the payroll estimates. However, household estimates rebounded 240,000, although they remain nearly 500,000 below their June peak. (By contrast payroll employment is 273,000 below the June peak, of which 343,000 reflect reductions in census payrolls). Also, the workweek remained steady in manufacturing and actually rose in the service producing sectors. Hourly wages also grew a robust 0.5% and are 4.1% above previous year levels. As a result, personal income will grow more robustly in September than in August, although **industrial production** probably will fall sharply, especially in industrial materials and business equipment. The index of **hours worked** rose because of the workweek gains in the service sector. Normally, such changes in hours would indicate that the employment declines are nearing an end. However, further increases in oil prices along with uncertainty because of the failure of the budget agreement suggest that further declines in employment will develop. Almost all the indicators are saying recession, but the growing workweek still requires some pause before declaring that the recession is in force.

PERSONAL INCOME AND OUTLAYS-September's personal income should increase more than in August, when wage earnings grew an anemic $0.7 billion. By contrast, wage earnings should be up nearly $15 billion for September. However, property income should slow slightly while proprietors' income should dip modestly. If these income levels are appropriate, savings should fall sharply in the next few months, as gasoline prices continue to rise and auto sales remain firm. Indeed, our projections of consumer activity could be too optimistic.

In August, auto spending fell sharply, especially because of weakness in truck purchases. The jump in nondurables was less than expected, although gasoline sales rose 6.4%. Non-autos dipped slightly but maintained the furniture and hardware activity of earlier in the year. With auto sales rebounding in September with the aid of incentives and fears of higher prices ahead, retail sales certainly should be strong in that month. Therefore, consumer outlays, which already rose 0.5% in August, should rise another 0.5% in September. The surge in housing service expenditures during the third quarter should begin to subside, but real consumer spending is up a strong 2.5% during the quarter. Weakness will appear later in the year.

CONSTRUCTION-Uncertainty, rising fixed rate mortgages, and inadequate builder financing continue to take their toll upon housing starts. Multi-family activity rebounded from very low levels during the month, while single family activity subsided, with most of the weakness in the South. Apparently, regulatory restraint in the banking system may have been responsible for this regional bias. Falling permits suggest that housing has not yet reached a minimum, but some support is anticipated before the onset of winter. By that time, most of the housing starts will be impacted by weather conditions.

The weakness in housing starts is clearly reflected in falling residential construction expenditures. Further weakness into the winter is expected. The rebound in public construction in August was not anticipated and cannot be sustained. However, the gains were widespread. Little growth from these levels is anticipated until next spring. After a July spurt, nonresidential construction has sagged, with weakness also hitting the industrial and commercial sectors. A rebound from the August levels is expected in September, but nonresidential construction should slow to less than the rate of inflation for the next year.

Construction prices once again slowed in August and may remain more modest than previously projected.

BUSINESS ACTIVITY-Although the price impact from oil prices was even larger than expected for manufacturing orders and shipments, inventories showed surprising restraint. As a result, all the growth in inventories probably will reflect higher prices rather than more goods. Therefore, no rebound in inventory investment is expected during the summer months.

Strong auto shipments, which are counted both as orders and shipments when they are delivered to dealers, led to stronger durable goods orders than expected in August. Also, defense orders rebounded, but remain below shipments. The plunge in nondefense capital goods orders reflect the absence of aircraft orders and also some weakness in nonelectrical machinery, which includes computers. Shipments were strong in August, but the reduction in backlog clearly suggests that some slowing in shipments is likely during the next quarter unless orders rebound. With industrial activity slowing and capacity utilization declining, a reduction in orders is more likely than an advance.

Despite weakness in the past two months, industrial production still appears to be growing for the quarter. However, a continuation of current industrial decline should lead to substantial declines in capacity utilization, which should lead to cumulative weakness in capital spending.

PRICES-Price increases were smaller than expected in August as a result of some weakness in natural gas prices and a more favorable shift of economic activity than normal to restrain inflation. As a result, the GNP deflator may not have accelerated despite a substantial increase in the fixed weighted deflator. However, strong price increases are expected in the fourth quarter, while no sharp reversal of increasing prices is likely early next year.

MISCELLANEOUS-Sharp declines in consumer sentiment and stock prices led to substantial declines in the leading indicators for August. Stock prices fell again in September, but only by one third the August amount. Consumer sentiment remained low but did not fall lower. However, some weakness in orders for consumer goods, substantial gains in initial unemployment claims, weakness in sensitive prices, and a decline in the backlog all should lead to another sharp decline in the leading indicators for September. The coincident indicators are now falling sharply as well, suggesting that a recession is on the verge of development, if it has not already begun.

The trade balances deteriorated before the rise in oil prices, but rising oil prices should more than offset any weakness in other imports during the next few months. When oil prices finally fall during the winter, the trade balances will diminish, leading to some stability in the currency markets. Until that time, however, falling interest rates, reduced profitability in the United States, and a widening trade balance all suggest that the dollar will reach historic lows against the German mark and the Japanese yen. Our estimates are consistent with a 1.45 mark and a 125 yen by the end of this year.

Higher returns on oil will prevent adjusted profits from falling during the summer. However, profits should then fall sharply into next summer. Indeed, the decline in profits currently projected is only half what normally would develop in the slowing of economic activity currently projected. Therefore, the estimates may be too low.

FINANCIAL MARKETS

In evaluating the sources and uses of funds, interest rates should be rising at the current time. First, foreign investors see a shrinking interest rate differential and, in the case of the Japanese, their other investment values have fallen to the point that the dollar based assets have become too large a portion of their portfolios. Therefore, foreign investors will be abandoning our markets until the dollar falls to a level that excites asset purchases from foreign investors. This will not happen until next spring.

(Note that foreign investors still will need to provide sufficient capital to offset the growing imbalance in trade. Therefore, foreign investment will actually increase in the United States. However, foreign investors will not willingly provide these capital transfers until interest rates rise further here or the dollar falls to a level that it must rebound. A little of both probably should be anticipated.)

Second, government borrowings are ballooning. The federal government has lost control of government spending, with expenditures growing more than 8%, even as revenues are shrinking because of a weakening economy. The result has been an explosion in the government deficit. This year's deficit is more than $230 billion. Next year, which has just started, should generate a deficit in excess of $300 billion. A deficit reduction package could limit borrowings later in the year, after February, but until that time, government bond supply will press interest rates upward.

Third, the corporate sector is facing cash flow problems. Even as the value of inventories rise along with petroleum prices, corporate earnings fall. During the summer, enough money was transferred to energy producers to limit the corporate borrowing needs, but this will be less true in the fall. Therefore, interest rates should move upward. Higher commercial paper rates than federal funds rates clearly suggests that something is pressing corporate borrowings upward. A weak economy could turn this around by late winter, however.

Fourth, household savings is plummeting. Therefore, individual contributions to the credit markets are shrinking rapidly. This should stabilize after Christmas. Thus, a case can be made for rallying the bond market at that time. However, pressures until the winter should be more to the upside on long-term interest rates than to the downside.

At some point, lower short-term rates will create an arbitrage opportunity that will limit the upside move of the long rates. Therefore, increases above 9.25% are unlikely for the long-term government bond. Nevertheless, some increases in long-term rates are likely even with near-term reductions in short-term rates once a budget agreement is forthcoming.

EQUITY MARKETS-Our equity formulas suggest another two months of declining equity values before the stock market finds a base. Of course, substantial uncertainties suggest that more caution than boldness is appropriate for this market. Furthermore, the long-term interest rate pattern remains questionable. On the other hand, the stock market has performed remarkably close to our expectations given the changes in interest rates, profits, and currency values. Moreover, strong stock market gains are likely next year once some budget reduction program arrives and oil prices begin to recede.

In the meantime, some of the sharp declines in stock prices have exposed some exceptional values. For example, some of the regional banks whose capital adequacy suggests that dividends will be defended have yielded more on their stocks than on their bonds. A general flight from these securities is responsible for that pricing.

When such pullbacks expose value, investors should move in and add to their portfolio. Except for energy related stocks, it probably is too late to sell. In the latter case, some profit taking by the winter should occur, although holdings could remain intact until the threat of hostilities diminishes.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate	Hourly Earnings	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	Proj	AR%
April 1990	110177		124.2		118116		5.4	9.96	
May	110617	1.7	124.6	0.8	118350	0.7	5.3	9.98	4.2
June	110829		125.3		118389		5.2	10.03	
July	110740		124.8		117953		5.5	10.07	
August	110665	0.5	124.6	-0.2	117658	-1.9	5.6	10.09	4.3
September	110623 *		124.5 *		117549 *		5.7 *	10.13 *	
October	110586		124.3		117578		5.7	10.17	
November	110527	-0.4	124.2	-1.4	117484	-0.7	5.9	10.21	4.4
December	110554		124.1		117496		6.0	10.24	
January 1991	110578		124.1		117504		6.1	10.27	
February	110542	-0.1	124.0	-0.7	117462	-0.2	6.2	10.31	4.1
March	110503		123.8		117431		6.4	10.35	
April	110476		123.7		117380		6.5	10.38	
May	110459	-0.2	123.6	-1.1	117373	-0.3	6.6	10.41	4.1
June	110492		123.6		117378		6.7	10.45	
July	110548		123.7		117459		6.7	10.48	
August	110593	0.4	123.7	0.3	117519	0.5	6.7	10.52	4.0
September	110651		123.8		117571		6.8	10.55	
Chng Sept(91)/Sept(90)		0.0		-0.6		0.0			4.1
Chng Sept(90)/Sept(89)		1.4		1.2		0.1			3.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	4.605		2.682		196.5		3.911		3.715	
May	4.621	5.6	2.692	6.8	207.2	17.3	3.923	4.6	3.716	4.0
June	4.641		2.711		181.5		3.943		3.761	
July	4.665		2.727		178.5		3.960		3.782	
August	4.678	4.8	2.728	5.2	171.4	-42.9	3.970	4.6	3.799	7.7
September	4.689 *		2.733 *		158.9 *		3.979 *		3.820 *	
October	4.702		2.739		154.3		3.989		3.835	
November	4.719	3.7	2.749	3.0	146.7	-41.7	4.003	3.4	3.856	5.9
December	4.738		2.761		143.6		4.018		3.874	
January 1991	4.758		2.773		147.2		4.040		3.893	
February	4.781	5.1	2.788	5.3	154.5	3.8	4.064	5.8	3.910	5.9
March	4.797		2.795		147.1		4.077		3.930	
April	4.815		2.805		145.8		4.093		3.947	
May	4.832	4.7	2.812	4.3	140.1	-22.1	4.107	4.9	3.967	6.0
June	4.856		2.827		135.7		4.127		3.991	
July	4.876		2.838		137.1		4.146		4.009	
August	4.900	5.5	2.853	5.5	137.0	-9.4	4.166	5.6	4.029	6.2
September	4.921		2.866		137.2		4.183		4.046	
Chng Sept(91)/Sept(90)		4.9		4.9		-13.7		5.1		5.9
Chng Sept(90)/Sept(89)		6.3		5.4		6.4		6.1		6.1

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CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	3608.1		480.6		1174.3		1952.0		2675.3	
May	3613.8	4.1	472.9	-10.0	1174.2	1.4	1961.0	4.9	2672.6	0.3
June	3649.9		481.7		1188.4		1983.1		2689.4	
July	3666.5		486.3		1190.1		1997.4		2694.6	
August	3690.5	7.4	480.3	4.7	1201.8	7.1	2008.4	9.1	2697.7	2.5
September	3711.5 *		485.1 *		1206.1 *		2020.3 *		2695.3 *	
October	3725.8		480.6		1212.8		2032.5		2689.4	
November	3747.1	6.3	486.2	0.9	1216.3	5.7	2044.7	7.4	2690.5	-0.7
December	3764.8		488.3		1218.9		2057.6		2693.4	
January 1991	3783.1		491.1		1221.5		2070.5		2695.2	
February	3799.8	6.0	491.3	6.0	1225.6	3.2	2082.9	7.7	2696.8	0.9
March	3819.9		493.9		1229.7		2096.3		2700.2	
April	3836.9		493.0		1234.4		2109.4		2701.6	
May	3856.2	6.1	496.8	4.1	1237.8	4.2	2121.7	7.7	2704.7	1.2
June	3880.0		501.5		1243.0		2135.5		2710.6	
July	3897.3		502.0		1246.7		2148.6		2712.9	
August	3917.3	6.2	506.2	6.1	1250.1	3.9	2161.0	7.6	2717.8	1.7
September	3933.8		505.4		1254.1		2174.3		2719.5	
Chng Sept(91)/Sept(90)		6.0		4.2		4.0		7.6		0.9
Chng Sept(90)/Sept(89)		6.0		0.0		5.7		8.1		0.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	147.89		22.78		9.6		94.27		30.84	
May	147.78	-3.6	22.67	8.7	9.3	-5.4	94.26	1.4	30.85	-13.5
June	149.43		22.73		9.9		95.59		31.11	
July	150.04		22.78		9.7		95.86		31.41	
August	149.20	4.3	22.71	-0.2	9.4	1.4	96.41	7.4	30.07	-1.6
September	150.59 *		22.65 *		9.8 *		96.99 *		30.95 *	
October	150.63		22.57		9.0		97.53		30.53	
November	151.53	3.9	22.66	-1.3	9.3	-15.6	97.81	5.8	31.06	1.9
December	151.98		22.69		9.4		98.02		31.27	
January 1991	152.50		22.76		9.5		98.23		31.51	
February	152.85	4.2	22.74	2.5	9.5	13.6	98.56	3.2	31.55	8.6
March	153.47		22.84		9.6		98.89		31.74	
April	153.75		22.96		9.5		99.27		31.52	
May	154.43	4.2	22.91	4.0	9.7	5.7	99.54	4.2	31.98	4.2
June	155.37		23.14		9.8		99.96		32.27	
July	155.73		23.11		9.8		100.26		32.36	
August	156.46	4.7	23.22	3.0	10.0	11.5	100.53	3.9	32.71	8.4
September	156.70		23.20		10.0		100.85		32.65	
Chng Sept(91)/Sept(90)		4.1		2.4		2.0		4.0		5.5
Chng Sept(90)/Sept(89)		2.3		0.6		-8.4		5.7		-6.2

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CONSTRUCTION

	Housing Starts		Single Family Starts		Multi-Family Starts		Housing Permits	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	1.216		0.898		0.318		1.108	
May	1.206	-53.6	0.897	-53.4	0.309	-53.3	1.065	-65.1
June	1.179		0.889		0.300		1.108	
July	1.148		0.868		0.279		1.082	
August	1.127	-22.1	0.840	-18.4	0.287	-35.4	1.036	-16.6
September	1.108 *		0.843 *		0.265 *		1.017 *	
October	1.103		0.837		0.266		1.004	
November	1.115	-2.9	0.846	-0.9	0.269	-8.4	1.006	-11.9
December	1.140		0.862		0.278		1.027	
January 1991	1.147		0.865		0.282		1.043	
February	1.163	18.7	0.877	16.5	0.286	25.8	1.060	20.1
March	1.195		0.902		0.293		1.076	
April	1.213		0.916		0.297		1.094	
May	1.226	19.9	0.921	19.6	0.305	21.0	1.107	15.6
June	1.229		0.928		0.301		1.095	
July	1.241		0.935		0.306		1.125	
August	1.256	10.8	0.943	9.1	0.313	15.9	1.134	14.8
September	1.266		0.948		0.318		1.153	
Chng Sept(91)/Sept(90)		14.3		12.5		20.0		13.4
Chng Sept(90)/Sept(89)		-12.3		-13.0		-9.9		-22.4

	Non-Residential		Public Construction		Residential Construction		Construction Expenditures		Real Construction Expenditures	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	138.6		106.0		200.2		444.7		406.0	
May	137.9	-0.6	109.8	-10.4	196.1	-10.1	443.8	-7.5	404.2	-8.9
June	140.1		111.5		189.5		441.1		401.1	
July	144.8		108.5		189.1		442.4		400.7	
August	140.5	10.9	115.1	13.3	186.9	-16.3	442.5	-1.2	400.5	-4.1
September	142.2 *		114.1 *		184.3 *		440.6 *		397.7 *	
October	142.0		114.6		183.5		440.1		396.5	
November	141.7	-2.2	114.9	9.2	183.1	-6.5	439.7	-1.3	395.4	-3.6
December	141.4		115.7		184.3		441.4		395.9	
January 1991	141.9		115.3		184.9		442.1		395.4	
February	142.6	2.2	115.9	3.2	185.8	5.0	444.3	3.6	396.7	0.7
March	142.9		116.7		186.9		446.5		397.6	
April	142.8		117.3		188.1		448.2		398.0	
May	142.9	1.9	117.8	6.4	189.0	7.1	449.7	5.2	398.3	2.0
June	143.7		118.2		190.1		452.0		399.3	
July	143.5		118.0		191.3		452.8		398.9	
August	144.5	3.3	118.4	2.3	192.8	7.9	455.7	4.9	400.4	1.7
September	144.9		118.9		194.0		457.8		401.2	
Chng Sept(91)/Sept(90)		1.9		4.2		5.3		3.9		0.9
Chng Sept(90)/Sept(89)		2.2		12.6		-4.5		1.7		-0.3

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BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	372.3		123.61		36.57		35.30	
May	372.4	-1.3	128.74	10.7	35.93	-21.1	35.30	-3.5
June	370.7		124.69		36.19		36.62	
July	373.3		128.09		39.84		35.10	
August	373.9	3.0	127.46	7.1	35.77	11.3	36.76	5.8
September	376.4 *		127.98 *		36.04 *		36.89 *	
October	378.9		127.31		35.73		35.88	
November	380.3	6.6	126.54	-3.8	35.42	-18.3	35.56	-4.3
December	382.4		125.97		35.01		36.11	
January 1991	384.1		126.43		35.17		36.27	
February	385.5	5.3	127.88	3.3	35.64	2.2	36.05	3.6
March	386.7		128.56		35.93		36.19	
April	388.0		127.46		35.26		35.83	
May	389.3	4.1	127.81	-0.1	35.43	-2.9	35.69	-4.0
June	390.7		127.55		35.27		35.89	
July	391.8		127.11		35.52		36.15	
August	393.5	4.2	127.86	-0.2	35.85	5.2	36.29	4.9
September	394.9		127.69		35.93		36.25	
Chng Sept(91)/Sept(90)		4.9		-0.2		-0.3		-1.7
Chng Sept(90)/Sept(89)		1.5		2.2		2.0		3.2

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	796.1		8.92		108.8		83.1	
May	800.4	1.5	9.18	30.1	109.4	0.9	83.4	-1.7
June	796.5		9.10		110.0		83.6	
July	801.9		8.95		110.0		83.5	
August	805.7 *	4.4	9.15	3.4	109.8	1.5	83.1	-1.1
September	811.3		9.33 *		109.6 *		82.8 *	
October	815.7		9.01		109.5		82.5	
November	819.4	6.6	8.96	-5.0	109.3	-1.7	82.2	-4.4
December	822.6		9.11		109.2		81.9	
January 1991	825.1		8.98		109.0		81.6	
February	828.7	4.5	8.78	-6.9	108.8	-1.8	81.2	-4.5
March	831.1		8.84		108.7		81.0	
April	834.5		8.85		108.5		80.6	
May	837.6	4.6	8.76	-2.1	108.5	-1.0	80.4	-3.9
June	840.8		8.85		108.7		80.4	
July	844.0		8.80		109.0		80.5	
August	847.2	4.7	8.73	-2.0	109.2	2.4	80.4	-0.3
September	850.7		8.80		109.4		80.3	
Chng Sept(91)/Sept(90)		4.9		-5.7		-0.2		-3.0
Chng Sept(90)/Sept(89)		2.4		1.1		1.3		-1.3

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	129.3		116.6		113.2		130.5	
May	129.6	4.2	117.0	-1.2	113.3	-1.6	130.9	4.7
June	130.2		117.2		113.1		131.4	
July	130.7		117.1		113.2		131.7	
August	131.8	6.4	118.6	5.9	115.9	6.6	132.4	4.7
September	132.7 *		120.2 *		116.0 *		133.2	
October	133.7		121.3		118.4		134.0	
November	134.5	8.3	122.0	11.6	119.0	14.3	134.7	6.6
December	135.0		122.5		119.4		135.1	
January 1991	135.6		123.0		119.9		135.7	
February	136.1	5.3	123.3	4.6	120.1	3.8	136.2	4.8
March	136.7		123.6		120.1		136.7	
April	137.2		124.0		120.3		137.2	
May	137.8	4.9	124.3	3.4	120.6	1.8	137.7	4.6
June	138.3		124.7		120.8		138.3	
July	138.9		125.2		121.1		138.7	
August	139.3	4.7	125.3	3.4	121.3	2.5	139.2	4.3
September	139.9		125.6		121.5		139.7	
Chng Sept(91)/Sept(90)		5.4		4.5		4.7		4.8
Chng Sept(90)/Sept(89)		6.1		5.2		4.9		4.7

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	134.8		112.1		129.1		146.0		109.5	
May	135.3	3.7	112.2	-1.0	129.2	3.5	146.7	4.2	109.8	1.0
June	135.6		112.0		130.0		147.0		110.0	
July	136.0		112.2		130.1		147.6		110.4	
August	136.8	4.8	112.2	0.7	131.3	6.2	148.3	4.8	110.5	2.9
September	137.7 *		112.5 *		132.8 *		149.0 *		110.8 *	
October	138.5		112.7		134.1		149.6		111.0	
November	139.3	7.1	113.1	2.6	135.1	11.2	150.3	5.4	111.2	2.4
December	139.8		113.3		135.6		150.9		111.5	
January 1991	140.4		113.6		136.3		151.5		111.8	
February	140.9	5.0	113.8	2.9	136.7	5.4	152.2	5.2	112.0	2.9
March	141.5		114.1		137.2		152.9		112.3	
April	142.0		114.4		137.7		153.5		112.6	
May	142.6	4.8	114.6	2.7	138.4	4.9	154.1	5.2	112.9	3.1
June	143.1		114.8		139.0		154.8		113.2	
July	143.7		115.1		139.3		155.5		113.5	
August	144.1	4.5	115.4	2.8	139.7	3.9	156.1	5.2	113.8	3.2
September	144.7		115.7		140.1		156.7		114.1	
Chng Sept(91)/Sept(90)		5.0		2.8		5.5		5.2		3.0
Chng Sept(91)/Sept(90)		4.6		1.3		7.5		5.0		2.0

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1982 $)		IVA (annual rate)
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj
April 1990	-7.31		145.1		5417		4150		-3.3
May	-7.77	62.0	145.8	0.3	5437	5.1	4154	0.4	-0.3
June	-5.34		146.0		5467		4161		2.6
July	-9.33		146.0		5482		4161		2.8
August	-9.66 *	-299.5	144.2	-3.7	5503	4.8	4156	0.1	-9.3
September	-9.88		142.6 *		5529		4150		-17.6
October	-9.47		141.9		5551		4143		-21.4
November	-9.43	1.4	141.9	-5.9	5564	4.4	4132	-2.0	-24.3
December	-9.87		142.5		5578		4128		-26.7
January 1991	-9.33		141.4		5595		4124		-21.6
February	-8.72	28.2	142.7	0.7	5609	3.4	4119	-1.3	-18.5
March	-8.43		142.9		5629		4118		-18.1
April	-7.67		142.5		5645		4114		-17.3
May	-7.21	51.2	143.0	1.7	5659	3.7	4109	-0.9	-15.5
June	-7.25		143.3		5684		4111		-11.2
July	-7.03		143.7		5712		4117		-5.6
August	-6.74	33.7	144.8	4.9	5735	5.3	4120	0.9	-1.3
September	-6.20		145.5		5761		4125		-3.4
Chng Sept(91)/Sept(90)		37.2		2.0		4.2		-0.6	
Chng Sept(90)/Sept(89)		12.7		-1.7		5.7		1.0	

	Currency Index		Adjusted Profits		30 - Year Government Bonds		New York Composite	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	93.51		167.5		8.76		185.61	
May	92.04	-2.0	168.4	12.6	8.83	28.1	191.35	12.7
June	92.43		172.6		8.46		196.68	
July	89.68		174.3		8.50		196.61	
August	85.88	-22.1	174.0	9.9	8.86	4.1	181.65	-12.6
September	85.57 *		172.4		8.95 *		176.43 *	
October	82.66		169.6		9.07		172.12	
November	82.22	-22.1	166.3	-12.4	9.16	12.9	167.95	-25.4
December	80.43		167.8		8.89		175.49	
January 1991	80.51		163.8		8.78		174.32	
February	81.46	-2.6	164.4	-9.5	8.93	-9.2	172.88	5.8
March	81.72		163.1		8.76		175.71	
April	81.88		164.5		8.71		179.13	
May	83.13	10.8	162.7	-0.6	8.65	-8.8	179.29	15.7
June	85.01		163.4		8.51		183.94	
July	85.96		163.9		8.37		188.53	
August	84.74	11.0	165.1	4.0	8.50	-8.7	187.94	20.8
September	85.93		166.4		8.42		192.17	
Chng Sept(91)/Sept(90)		0.4		-3.5		-5.9		8.9
Chng Sept(90)/Sept(89)		-16.0		1.0		9.8		-8.6

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AR% is the annualized percentage change from the previous quarter.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	304.8		807.3		3277.9		8.26		7.84	
May	305.7	4.1	805.4	3.6	3271.8	2.9	8.18	-0.3	7.76	2.3
June	308.0		809.4		3279.0		8.29		7.63	
July	309.3		809.2		3283.7		8.15		7.52	
August	311.7	8.3	816.4	4.0	3302.1	3.1	8.13	-4.5	7.38	-16.6
September	316.1 *		820.5 *		3318.8 *		8.17 *		7.30 *	
October	319.7		823.8		3333.4		7.73		7.18	
November	321.6	12.2	827.4	6.1	3346.7	5.7	7.56	-24.4	7.04	-16.2
December	323.2		831.2		3363.2		7.51		7.02	
January 1991	324.5		834.3		3376.4		7.54		7.06	
February	325.9	5.6	837.8	4.9	3388.7	5.2	7.26	-13.2	6.83	-11.5
March	327.3		840.1		3405.3		7.21		6.71	
April	328.8		843.3		3420.6		7.07		6.65	
May	330.5	5.7	846.7	4.5	3436.7	5.5	7.01	-16.8	6.53	-16.7
June	332.0		849.8		3449.5		6.94		6.50	
July	333.2		852.9		3462.8		6.78		6.48	
August	334.6	5.2	855.6	4.5	3478.9	5.2	6.79	-12.0	6.54	-2.2
September	336.1		859.7		3495.7		6.79		6.55	
Chng Sept(91)/Sept(90)		6.3		4.8		5.3		-16.9		-10.3
Chng Sept(90)/Sept(89)		7.5		4.8		4.8		-9.4		-5.7

	AAA (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Papers		90 Day CD's		Prime Rate	
	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%	Proj	AR%
April 1990	9.46		7.44		8.30		8.42		10.00	
May	9.47	9.1	7.35	8.0	8.25	1.1	8.35	5.5	10.00	-1.5
June	9.26		7.24		8.14		8.23		10.00	
July	9.24		7.19		7.99		8.10		10.00	
August	9.41	0.3	7.32	-1.6	7.88	-13.1	7.97	-13.4	10.00	0.0
September	9.56 *		7.43 *		7.97 *		8.05 *		10.00	
October	9.65		7.53		7.81		7.94		9.77 *	
November	9.88	19.1	7.62	17.2	7.62	-13.8	7.73	-12.3	9.50	-15.4
December	9.94		7.68		7.54		7.67		9.50	
January 1991	9.82		7.54		7.48		7.59		9.50	
February	9.90	0.1	7.58	-5.2	7.32	-15.4	7.43	-16.2	9.22	-13.8
March	9.76		7.41		7.23		7.31		9.00	
April	9.61		7.28		7.08		7.20		9.00	
May	9.55	-11.7	7.23	-15.0	7.04	-16.0	7.11	-16.3	9.00	-10.0
June	9.42		7.12		6.97		7.05		9.00	
July	9.27		7.05		6.85		7.01		9.00	
August	9.35	-10.1	7.11	-8.8	6.87	-8.3	7.03	-4.4	9.00	0.0
September	9.21		6.98		6.92		7.08		9.00	
Chng Sept(91)/Sept(90)		-3.7		-6.1		-13.2		-12.0		-10.0
Chng Sept(90)/Sept(89)		6.1		2.3		-8.4		-8.3		-4.8

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